# THE ONE POUND NOTE

BY

WILLIAM BAIRD. F.S.A. SCOT.

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ITS

## HISTORY, PLACE, AND POWER IN SCOTLAND, AND ITS ADAPTABILITY FOR ENGLAND.

TO WHICH IS ADDED

## NOTE EXCHANGE AND CLEARING-HOUSE SYSTEM AND RULES IN SCOTLAND.

BY

WILLIAM BAIRD, F.S.A. SCOT.,

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Third Edition.

(*REVISED AND BROUGHT DOWN TO DATE.*)

EDINBURGH

ANDREW BAXENDINE,

15 CHAMBERS STREET

1912.

EDINBURGH
COLSTONS LIMITED
PRINTERS

## PREFACE TO SECOND EDITION.

THE following treatise was originally published in 1885 as an analysis of the evidence given in 1875 by leading bankers and lawyers in England, Scotland, and Ireland, before a Select Committee of the House of Commons. The high character and standing of the witnesses was a sufficient guarantee of the accuracy and value of the evidence, and the Blue Book afterwards published affords perhaps the most comprehensive body of facts and opinions bearing upon the banking system of the three kingdoms which has ever been given to the public. The size of the volume—extending to 560 folio pages of question and answer—unfortunately renders its wealth of detail practically useless to the ordinary reader, and the present author has sought to place its facts and figures within the reach of all in a compact form. In doing so, it is to be remembered that some of the Scotch banks, for their own convenience and the convenience of their customers, and also as an additional outlet for their rapidly increasing deposits, having opened branches in London and in Cumberland, the English bankers looked upon this as an invasion of their territory and an infringement of the privileges secured to them by the Bank Act of 1844. The Government on complaint took the question up, and ultimately the whole matter was remitted to the Select Committee referred to, to consider and report upon the restrictions imposed and privileges conferred by law on bankers authorised to make and issue Notes in England, Scotland, and Ireland respectively.

The evidence adduced turned largely upon the merits and demerits of the Scotch system of banking as compared with that of England. Practically, Scotch banking was on its defence. It stood the trial, and its vindication was complete. Beyond the publication of the evidence, the Committee made no recommendation, and the Government wisely resolved to take no action in imposing fresh restrictions upon Scotch banking.

Though proposals have since been made, notably by Mr. Goschen in 1891, when Chancellor of the Exchequer, for certain alterations on the Bank Acts of 1844 and 1845, with a view to the introduction of One Pound Notes into England, nothing has come of the movement, and matters stand very much now as they did a quarter of a century ago.

Statistics relative to deposits, capital, liabilities, note circulation, &c., have altered considerably since 1875 and 1885, but the actual relative position of these as bearing upon the argument for the retention of the right of issue, and the propriety of the extension of a paper currency, is in no way affected thereby.

The first edition—for some years out of print—has been frequently in demand, and the Author, yielding to a very generally expressed desire that it should be still accessible to bankers and others, has had it carefully revised, and where necessary, has introduced new matter so as to bring its information down to date.

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## PREFACE TO THIRD EDITION.

It is gratifying to the Author to find that after quarter of a century since its first publication his attempt to deal with the question of a paper currency is still so much appreciated that the continued demand necessitates his once more going to press.

In issuing this Third Edition of *The One Pound Note*, care has been taken to make a thorough revision of the text, and to bring the statistics bearing on the subject down to the present time, so that it may be found a useful aid to students and others interested in banking affairs.

# THE ONE POUND NOTE:

## *Its History, Place, and Power in Scotland, and its Adaptability to England.*

THE historical development of a paper currency is the natural and inevitable outcome of enlightened confidence in the good faith of a commercial community. As a substitute for money it may be shown to be as serviceable to a community as money itself. Money is something with which we can go into the market and at once exchange for commodities offered for sale. It supersedes the cumbersome method of exchange of goods for goods by barter, only now practised in semi-civilised countries. What we are familiar with as the most approved form of money as a medium of exchange is coin of the precious metals—gold, silver, or bronze—not only because they represent a certain standard of value, but are in themselves held as of intrinsic value.

In an advanced state of civilisation, and with complicated commercial relations such as now exist nearly over the whole world, while gold and silver are still the standard of our monetary systems, there has in the course of time been superadded another medium of exchange founded upon credit, but without any intrinsic value. This paper currency, nevertheless, is found to perform all the purposes for which a metallic currency exists. It passes from hand to hand in exchange for goods or services rendered, as freely as the coin of the realm. Bearing on its face the symbol of its value in relation to the metallic currency, its only claim to be received as such rests in the fact that it has been issued by some individual or body of individuals whose promise to pay the amount stated is held by the community to be a sufficient guarantee that the promise will be duly implemented. A currency of this kind necessarily implies a sense of security, an absolute confidence in commercial dealing, and a state of society in which there is not

only enlightenment but freedom. Any other currency than one bearing in itself an intrinsic value is impossible in a community where these elements are wanting, but to money-dealers and bankers the issue of a paper currency has often been a convenient form of exchange.

Banking in one form or other has been practised from time immemorial, but it is only when we come down to the seventeenth century that we find in Europe any reliable indication of a paper currency in the form of Bank Notes, "Payable to bearer on demand."

The Middle Age bankers of Genoa, Venice, Barcelona, Hamburg, &c., issued bills of exchange upon one another and upon their correspondents, in the settlement of the international commerce of that time, and their paper was found to be a great convenience in obviating the cumbrous transmission of the metals in payment of goods. They brought the practice to so much perfection that they may be considered as the only representatives of *public* banking in Europe till about the beginning of the seventeenth century.

In spite of the edicts of the church imposing penalties on those lending money at interest, the business was gradually spreading, and was no longer confined to the Jews; for the church itself had found the bankers (especially of Lombardy) a convenient medium for remitting the tribute of the clergy from trans-alpine countries. The Italian merchants especially felt the necessity of a convenient medium of exchange, and the remitting of money by means of bills to suit the conveniences of their extensive trade speedily led to many of them becoming bankers, and to a great multiplication of banks, both public and private, throughout Europe. Accordingly we find that, about the beginning of the seventeenth century, the Bank of Amsterdam, the Bank of Hamburg, the Bank of Rotterdam, the Bank of Stockholm, and many others were formed, and before the close of the century somewhere about twenty-five public banks had been established. These were all more or less part and parcel of the State machinery of the different countries where they were situated. Some of them—such as the Banks of Venice, Rome, Milan—were *entirely* State institutions, managing the Government loans and gathering the revenue; but others, especially those in North Germany, were founded for the purpose of securing a uniform standard of value, transferring money from one account to another, or from one place to another; while they also offered the safe keeping of cash, which in those unsettled times was a matter of some consequence.

But, important and useful as the great Continental banks undoubtedly were, they differed materially from the great

institutions of Great Britain in many respects, and in none more so perhaps than in this, that, while at the time of the founding of the Bank of England in 1694, and the Bank of Scotland in 1695, none of the former had ventured to issue paper on their own credit, or on any other basis than that of the gold and silver lodged with them, the Banks of England and Scotland were, almost from the first, *Banks of Issue.*

The step from Bills of Exchange to the issuing of Promissory Notes is, if we consider it a moment, quite a natural one. Bills of exchange, originally documents drawn as an expedient to save the expense and risk of transporting the precious metals from place to place; or, as they have been defined, "they are bills by which the debt of one person is exchanged for the debt of another; and the debt, perhaps, which is due in one place for the debt due in another." This practice, afterwards extended for the purpose of giving credit on goods bought, became serviceable in commerce, so that a debt due by one person might be made available for obtaining credit from another. Bills were thus found to be most useful in facilitating the settlement of commercial transactions, for they not only obviated the use of ready money, but in many cases they took its place. The promissory notes of the Banks of England and Scotland were simply a kind of stereotyped bills of exchange, with this difference from the original, that they were "payable to A. B.," or "B. C.," or "Bearer," "on Demand." The indispensable basis of course on which such would be accepted, was *confidence* in the party by whom they were drawn and issued. The banks saw that they might, by issuing such notes, lend not merely their capital and such deposits as they had, but might also trade upon their *credit* to some profit.

Bank notes thus perform some of the functions of the bill of exchange, while they have supplemented very considerably those of the gold and silver currency, rendering an equivalent amount of money previously in circulation unnecessary.

To William Paterson (a Scotsman) is due the credit of devising and founding the Bank of England. He offered to advance money to the Government—then sorely pressed for cash—by means of his influence with city financiers in London, on condition that "Bank bills payable in coin on demand," and transferable "to bearer on demand," should be authorised. This was not at first granted in full, for the notes of the Bank were originally transferable only by endorsement. Mercantile custom, however, soon ignored the statutory requirement, and, "in 1704, English promissory notes were accorded the same right as Bills of Exchange,"

and from that time till 1759 the Bank issued printed notes in lieu of gold, but only for sums of £20. In 1759 the minimum was reduced to £10; in 1793, to £5; and in 1797, *to* £1 *and* £2 *notes.* But after 1829, bank notes in England of *less value than* £5 were prohibited.

Scotland, on the other hand, from the establishment of the Bank of Scotland, has enjoyed comparative freedom in her monetary affairs. The Bank of Scotland, not being like the Bank of England associated with the State as a State bank, was neither furnished with a permanent monopoly of the banking business of the country to the exclusion of others, nor was it troubled with vexatious restrictions. As the trade of the country was developed, other banks were allowed to establish themselves alongside the Bank, with the common law right of issuing their notes payable to "Bearer on Demand." The minimum value of notes has for many years been £1 sterling, though notes of a lower denomination have at times been issued in Scotland. When the Bank of Scotland started business in 1695, the notes issued were of various denominations, from £100 to £5. In 1696, the Bank endeavoured to extend the circulation of her notes throughout the kingdom, and established branches in Glasgow, Aberdeen, Dundee, and Montrose. Though the enterprise was worthy of all praise, it was found not to be successful. The trade of the country had not yet arrived at the point when banking facilities were required in these towns. Scotland at that time was in great poverty, and was sorely in need of coin to carry on the ordinary business of the people. To meet this want the Bank of Scotland issued, in 1699, their first 20s. notes, but the experiment was not altogether a success.

It is a fixed law that paper money on good credit will in time expel coin from circulation, but that time had not then arrived, for we are told that little else than *silver* money was accepted among the common people, and the 20s. notes seem to have had a very limited circulation.

After some vicissitudes, and a stoppage in 1704, which was, however, only temporary, the Bank enjoyed a period of considerable prosperity, paying dividends to its shareholders of thirty-five, forty, and even fifty per cent.

The union of the two kingdoms in 1707 necessitating a change in the coinage, the old Scotch coinage was called in, and the English standard introduced in its place, greatly to the convenience of the country, as the old coins seem to have been in a wretched condition, not only from wear and tear, but from deliberate and systematic defacement by clipping. In this operation the Bank rendered good service to the

Government, and considerably increased its reputation thereby, a reputation which was subsequently further increased by the prudence of its directors during the Rebellion of 1715.

The profits and credit of the Bank of Scotland were on so good a footing that others became anxious to participate in the business of banking; and so we find that the Royal Bank started as a rival in 1727. From this date to 1750 these two banks exercised the exclusive right of issuing notes, and when the British Linen Company in that year began to issue notes of their own (though it was originally established for the purpose of carrying on the manufacture of linen), the two older banks for many years declined to recognise them as a money tender.

About the same time there were several private banks established throughout the country, who appear to have issued notes. These were Coutts, Trotter & Co., The Glasgow Arms Bank, The Ship Bank, and the Bank at Aberdeen, but they met with strenuous opposition from their elder rivals, and their influence and power do not seem to have extended beyond their immediate districts. The desire, however, to participate in what was considered a lucrative business led to great abuses, and a multiplication of banks issuing "promises to pay" cropped up on all sides. Almost every town started a bank of its own. "Perth," we are told, "had no fewer than five issuing companies: Caithness and Dumfries, Falkirk and Arbroath, Cupar-Fife and Kilmarnock, even Borrowstounness and Kirkliston, all had their native bankers. Notes for 5s. and even for 1s. were in common use, and coin completely disappeared. The optional clause was universally adopted. James Smitton, of the North British Coffee House, Edinburgh, gave his promises to pay the 'Bearer 2s. 6d. sterling on Demand,' in money or 'in *drink!*' The Dundee Bank of George Dempster & Co. refined on the option, for they promised to pay One Pound on demand, 'or, in the option of the Directors, One Pound and Sixpence at the end of six months, *either* in cash or in notes of the Royal Bank or Bank of Scotland.'" This abnormal extension of the common law right of issue led to very great annoyance and even litigation, till at last public attention being fairly roused to the necessity of reform, the abuse was checked by the Act of 1765, which prohibited notes with an optional clause, or *for less than twenty shillings*, and making payment "on demand" imperative. From that time to this the £1 note has in Scotland and Ireland remained as the minimum paper currency, though various efforts, which will be afterwards named, have since been made to assimilate the issues to the £5 minimum of the English banks.

In 1826 the Government of Lord Liverpool introduced a Bill

bringing about more uniformity than existed in the collection of the revenue of the three kingdoms, and among other proposals was one prohibiting the issue of bank notes under £5. But the measure was received by the people of Scotland with open hostility. Sir Walter Scott, in several letters addressed to James Ballantyne, as editor of the *Edinburgh Weekly Journal*, powerfully advocated the claims of Scotland to be allowed to keep those privileges which had done so much to advance her commercial prosperity.

"I assume," said he, "without much hazard of contradiction, that banks have existed in Scotland for near 120 years—that they have flourished, and the country has flourished with them —and that during the last fifty years particularly, provincial bankers, or branches of the principal established and chartered banks, have gradually extended themselves in almost every lowland district of Scotland; that the notes, and especially the *small ones*, which they distribute, entirely supply the demand for a medium of currency, and that the system has so completely expelled gold from the country of Scotland, that you never by any chance espy a guinea there, unless in the purse of an accidental stranger, or in the coffers of those banks themselves. The consequence of this banking system," he continues, "has been attended with the greatest advantage to the country: roads have been made, bridges built, and canals dug, opening up to reciprocal communication the most sequestered districts of the country; manufactures have been established, unequalled in extent or success, wastes have been converted into productive farms; the production of the earth for human use has been multiplied twenty-fold, while the wealth of the rich and the comforts of the poor have been extended in the same proportion. And all this in a country where the rigour of the climate and sterility of the soil seem suited to set improvement at defiance. There is no doubt that this change has been produced by the facilities offered by the banks," and which he says could not have been offered by them "without their enjoying the reciprocal advantage of their own notes being circulated."

The Government found the opposition to their measure so strong, that, as regarded Scotland, it was ultimately abandoned, and that result was universally attributed to Sir Walter's "Malachi Malagrowther's" letters. By an Act passed in 1828 a certain restriction was, however, placed upon Scotch notes in so far that they were prohibited to be issued or negotiated in England.

Hitherto the Scotch banks were at liberty to issue as many notes as they pleased, the output being only limited by

the demand of their customers, and as a convenient currency they were taken and given unhesitatingly.

In the measure of 1845 for Scotland, Sir Robert Peel re-affirmed the Act of 1765, which fixed the minimum value of notes to be issued by the Scotch banks at £1, but he at the same time limited the amount of each bank's authorised issue to a sum ascertained to be the average issue during the preceding year, from returns to be furnished by each bank. Along with this restriction it was, however, provided that this fixed limit might be exceeded by any of the banks so long as an equivalent amount in gold was held by them against the excess, and that this privilege is largely taken advantage of by the banks is evident from the fact, that while the total authorised circulation is only £2,676,350, the *actual* circulation is now considerably over £8,000,000 sterling.

An attempt was made to fix the minimum value of the Scotch note at £5, but the remonstrances from the banks and from the public were again so strong, that the £1 note was ultimately retained.

Sir Robert Peel legislated as nearly on the same lines for Scotland as he did for England, endeavouring to establish uniformity in systems which were fundamentally different.

The result, as might have been expected, has not been altogether satisfactory, as we shall afterwards endeavour to show. Unnecessary restrictions have been imposed, and practical monopoly established, where a free and unfettered system formerly developed with so much success the resources of the country.

To restrict or hinder the free flow of capital from districts where it is not required to districts where it *is* required, but does not tend to accumulate, is most impolitic, unpatriotic, and injurious to the well-being of any community. Sir R. Peel, no doubt, gave the matter his best consideration, and legislated as he thought, in the interests of the country, while not overlooking the banking interest; but great differences of opinion exist as to the wisdom of the Acts of 1844 and 1845, for they have repeatedly been attacked, and have been matter of debate in our Chambers of Commerce and in Parliament.

In 1875 the House of Commons again had the question of bank issues under consideration, and eventually ordered a "Select Committee to be appointed to consider and report upon the restrictions imposed, and privileges conferred by law, on Bankers authorised to make and issue Notes in England, Scotland, and Ireland respectively." Some weeks previous to this appointment a Private Bill had been introduced to the notice of the House by Mr. Goschen, then Chancellor of the Exchequer,

for the purpose of preventing any Scotch bank from establishing branches in England; but it experienced so much opposition from both sides of the House that it was withdrawn.

The public interest in the question was, however, very strong, and the Government, with a view to a Bill of their own, determined to wait for the Committee's Report. The report of the Committee's proceedings is, as already stated, a most invaluable fund of information, perhaps *the most* complete that has ever been published on the subject of banking as practised in the three kingdoms. No action was, however, taken upon it. But as the facts and opinions therein recorded have not been materially affected in the interval, we shall have occasion to refer to the evidence given at some length before the Committee.

Originating in the action of one or two of the Scotch banks planting branches in England, the question before the Committee practically resolved itself into one between the merits of the Scotch as opposed to the English system of banking, and if the Committee were unable to arrive at agreement as to any legislative action to follow, there is evidence enough that the difficulties in the way of proposing any alteration in our banking laws were too great for the subject to be hastily dealt with.

Legislation affecting our banking system there has since been, but not in the line touched upon in the evidence of the Blue Book, but arising from the deplorable failure, in 1878, of the City of Glasgow Bank—perhaps, since the days of the Darien Scheme, the most calamitous that ever befel Scotland.

The question before the Committee as to the *legality* of any Scotch Joint-Stock Bank of Issue to establish branches in England has been practically answered in the affirmative, by the fact that nearly all the Scotch banks have since planted agencies in London, and one of them—the Clydesdale Bank—still retains her branches in Cumberland. To fully understand the point in dispute, a comparison of the English with the Scotch systems may not here be out of place. And we have abundant testimony from competent authorities regarding the law and practice of the two countries to show that Scotland, in being permitted to retain her £1 note issues, has been largely benefited thereby, while English banking, along with the commercial public there, have been placed at considerable disadvantage.

Three witnesses of undoubted legal ability and eminence were examined by the Committee, and gave information bearing on the English laws affecting the subject—viz., Mr. James Fitzjames Stephen, Q.C., Sir Henry Thring, and Mr. William Tatham.

Sir Henry Thring's memorandum, given in the Report as an Appendix (pages 432-439), is drawn up with great care. In a comprehensive and concise form, a sketch is given of the Acts of Parliament prolonging, from time to time, the Bank of England monopoly, since its foundation in 1694, and determining its relationship to the other banking institutions of the country. This monopoly in the early period of the Bank's history was of the most exclusive kind, we are told, but the tendency of later legislation has been to restrict in some measure this monopoly, so far as has been thought prudent or consistent with the growth of commercial science.

Thus we find by the Act of 1697, "That during the continuance of the Corporation of the Governor and Company of the Bank of England, *no other bank*, or any other corporation, society, fellowship, company, or constitution *of the nature of a bank*, shall be erected or established, permitted or suffered, continued or allowed by Act of Parliament within this kingdom."

In 1704, this was modified to the extent that any company, not exceeding *six* partners, might "borrow, owe, or take up any sum or sums of money on their bills or notes, payable on demand," thus practically permitting the issue of notes by other banks than the State Bank, provided their partners were not more than six.

"It was not" (says Sir Henry) "till 1833 that a Bank of Deposit only—the London and Westminster—was founded in England, and up to that time 'bank' invariably meant a bank of issue, and 'banking business' involved as its most essential characteristic the issue of promissory notes payable to bearer on demand."

In the same year the Bank Charter of 1812 expired, and in 1826 a modification was made of the general prohibition against the establishment of *Joint-Stock Banks of Issue*, to the effect that these were allowed to be established, but only at a distance of more than sixty-five miles from London.

Again, in 1833, it was enacted "that any body, politic or corporate, or society, or company, or partnership, although consisting of *more* than *six persons*, may carry on the trade or business of banking *in London*, or within sixty-five miles thereof, provided that such body, politic or corporate, &c., do not borrow, owe, or take up in England, any sum or sums of money on their *bills* or *notes payable on demand*."

Thus Joint-Stock banks were permitted to do business in London, *provided they did not issue notes.*

The Act of 1844, which, so far as the issuing of notes is concerned, is the Act at present in force, was intended to buy up small country bank issues, but "its great object was to obviate

the dangers of *over-issue*, by limiting the power to issue notes payable on demand." These are some of its provisions:—1. It provided that the issue of notes by the Bank of England should be kept wholly distinct from the general business, and that the notes issued by the Bank should be issued on the credit of securities: *coin and bullion set apart* in the Issue Department. 2. That no new Bank of Issue should be established. 3. That existing Banks of Issue should thenceforth be entitled to issue only the average amount of notes which they happened to have in circulation during the twelve weeks preceding the 27th April, 1844. 4. That if any banks, having at that date *six*, or *less than six*, partners, increased the number of their partners, they were to lose their issue. 5. Power was given to the Bank of England to compound with any private bank for a withdrawal of their notes from circulation, substituting in their room those of the Bank of England.

The Government thus, largely for its own benefit, put into the hands of one bank enormous rights and privileges, while a great many weak small banks were allowed to grow up clogged with restrictions and burdened with disabilities. Originally established like most of the great Continental banks as a part of the State machinery, the Bank of England, in return for valuable aid to the Government at important crises in the country's history, has had these privileges conserved and perpetuated to the present day almost undiminished. Fostered by law and privileged by the State it has become the centre of the whole monetary transactions, not only of the three kingdoms, but of the world.

Notwithstanding all this, however, there are some counterbalancing elements of good. Though large and powerful Joint-Stock Banks in England have been prohibited the privilege of issuing notes of any kind within the sacred sixty-five miles radius, Government restrictions have not prevented a great increase of these companies in London, some of them having a large number of branches throughout the city.

The growing commercial requirements of the country have made them a necessity; but their prosperity has to a large extent been at the expense of the convenience and prosperity of the community, as we shall afterwards show.

No doubt there may be found good grounds for the exclusive privilege of issue, which in London the Bank of England has always held, in the fact that she is the centre of the bullion reserves of the country. Gold is the standard of our currency. The final settlement of the country's liabilities is made in the precious metals, and in a sense we may say that England is the Banking Centre of the World. With the Bank, therefore,

largely rests the responsibility of seeing that the gold reserve is sufficient to meet all demands. With the Government of the country, on the other hand, rests the responsibility of providing a circulating medium for the carrying on of our trade; and it is doubtless its duty to see that any substitute for the coinage of the country is properly secured. But in England too much has been made of this. The supposed dangers arising from over-issue of notes have been more imaginary than real. Sir Robert Peel's object in the Act of 1844 was to obviate the dangers of over-issue, by limiting the power to issue notes by fixing them for all time coming at the figure they happened to be at the time, and to pave the way for a power of issue restricted to a State Bank. He apprehended that "bank notes were *over issued;*" that "they became *depreciated;*" that "they caused *inflation of prices;*" and that "they produced speculation, which ultimately led to crisis and collapse." None of these evils has occurred in consequence of the freedom of note issue in Scotland, and Scotsmen have been shrewd enough to know that they could not possibly occur under a system where a large number of wealthy shareholders were liable to the last penny for all the liabilities of the Scotch Joint-Stock Banks. Mr. Dun, manager of Parr's Banking Company, in reference to this point, gave it as his opinion, that "the *over-issue* of notes payable in gold on demand is a physical *impossibility.* So long as notes are payable *on demand,* there cannot be any depreciation in their value. The public *take,* and they *keep out* such a quantity of notes as serves their purpose, for making their minor daily payments, and no more; and the quantity of notes in circulation has no causative effect whatever on prices. The quantity of convertible notes in circulation will never inflate prices; but high prices, on the other hand, will naturally necessitate an increased circulation of notes."

Instead, therefore, of making the circulation of notes by the banks as elastic as possible, so as to meet the growing requirements of the country, it was enacted "That existing Banks of Issue should thenceforth be entitled to issue only the average amount of notes which they had in circulation during the twelve weeks preceding the 27th April, 1844." And further, "that the issue of bank notes by the Bank of England should be kept wholly distinct from the general business, and that the notes issued by the Bank should be issued on the credit of securities, coin and bullion set apart in the issue department."

The practical effect of so fixing the issues has been that the extension of the English provincial banks has been more or less crippled. And we find it given in evidence before the Com-

mittee that many of those banks whose branches are numerous have to keep considerably within their *authorised* issue, in order to avoid the heavy penalty imposed upon their exceeding this; that many districts in England and Ireland are insufficiently supplied with banking facilities, because the banks cannot afford the expense entailed by keeping up the branches with a stock of gold or Bank of England notes as "till money;" and that consequently the opportunities for saving, or laying out their savings, have been in a great measure denied to the population of these districts, and considerably to the disadvantage of the country at large.

Mr. Wade, of the National Provincial Bank of England, in reply to the Chancellor of the Exchequer, said, "I have always thought that the right of issue, *especially in rural districts*, was of considerable use in the districts in which it was exercised as a matter of general policy," because, "first of all it enables branches to be established in rural districts that *never could* be established if you had to supply their tills with Bank of England paper, because they can be worked cheaper." Scarcely one of the English provincial bankers in their evidence but admitted the same; while those who represented Irish banks expressed themselves strongly of opinion "that a withdrawal of the £1 note circulation would very seriously affect the trade of Ireland." "They are so accustomed," said Mr. P. Du Bedat, "to a £1 note circulation in Ireland, that if you were to take it away it would be a disastrous thing."

On the other hand again, so long have the people of England been accustomed to the use of gold, that it is the almost universal opinion of the English witnesses (while not all personally opposed to such a change), that a return to a £1 bank note issue would require to be effected very gradually and with great caution. "As a theoretical political economist," said Mr. Bagehot, of Messrs. Stuckey's Bank, "I see no objection to it, but I am not in favour of its practical introduction at this moment."

Mr. Palmer, Deputy-Governor of the Bank of England, was more emphatic, however, in his opposition. "I cannot think," says he, "that any good purpose would be served by returning to the system of issuing £1 notes for circulation in England and Wales. The gold coin circulating in the United Kingdom is estimated by good authorities to be not less than £117,000,000, of which the largest proportion by a very great degree must be circulating in England and Wales. If any important effect is to be produced, we must suppose One Pound Notes to be substituted to the extent of from forty to fifty millions sterling, and the gold representing it to be transferred to the vaults of

the Bank of England. I presume," he continues, "that it would not be contemplated to propose to the Bank of England to bear the cost and risk of the issue, and hence it must be borne by the State. What the risk would be may be estimated by reference to the amount of forgeries existing during the last year before the £1 notes were called in. Anything more inexpedient or unnecessary than the re-issue of £1 notes in England I cannot well imagine."

What are the facts as to forgeries of bank notes?

In the year 1820 it appears that the number of forged £1 notes presented to the Bank was no less than 27,993, which, with 217 £2 notes, and 873 of £5 and upwards, made a total value of £33,602; while the total amount of forgeries for the *ten years* prior to that date was altogether about £260,949.

In the succeeding ten years this large sum was reduced to £49,486, of which the greater proportion was in the £1 notes which, by the year 1830, had in England been all called in. The following decades show a steady decrease in these forgeries, no doubt arising from the perfection to which printing, engraving, and paper-making have been brought, making forgery a most difficult and perilous undertaking.

But after all it is not a paper currency only that is liable to this kind of abuse. The coinage is frequently tampered with, and if we had reliable information, it might possibly be found that spurious coin in circulation largely exceeded forged bank notes *attempted to be put in circulation.* In Scotland a forged bank note is very seldom seen, spurious coin frequently.

It is evident, however, that what is found to be good for Scotland and Ireland is not considered to be *safe* for England, though it might easily be shown that if Mr. Palmer's figures be correct, an immense saving in the tear and wear incident to a gold currency might be effected by the country. £40,000,000 of gold withdrawn from circulation need not necessarily be sent "to the vaults" as dead stock. With a reasonable and just proportion of gold against the additional paper issue, the convertibility of the note in England might be as secure as it is at present, and while the spare gold could be exported, the Mint might be saved a fresh issue for several years.

The total amount of gold coined at the Royal Mint from 1817 to 1874 was £212,950,000, and it is computed that after deducting loss by fire and shipwreck, appropriated for manufacture in the fine arts, exportation, and tear and wear, somewhere between £100,000,000 and £117,000,000 was then in circulation in the country. Scotland and Ireland contribute their share in the national cost of this enormous gold currency, while the proportion of gold to population in both, as compared

with England, is exceedingly small. Why is it then that a circulating medium *in paper* finds so much favour in the two former countries, while in England it finds no place or favour at all? Both Scotch and Irish witnesses before the Committee concurred in attesting to the decided preference of the people of these countries for the £1 note over gold, on account of its lightness and portability. If a paper currency does not so commend itself to an Englishman, his aversion must be founded on some principle or practice that raises in his mind a feeling of uneasiness as to its safety. It cannot all be mere custom or prejudice. Hence we are driven to the conclusion there is something in the constitution of the banking systems of England and Scotland and Ireland to account for the difference.

The preponderating influence of one great Bank in England has, since its foundation, been paramount and exclusive. The intimate connection of the Bank with the State necessarily led to this. For services to the State in time of need, it was in a position to claim exceptional privileges at the expense of would-be rival establishments.

We accordingly find strong Joint-Stock Banks for years entirely excluded from London and the neighbourhood, and, when ultimately allowed, debarred the right of issuing their Notes on Demand, or any notes whatever; while Provincial Joint-Stock Banks, *with right of issue*, are still prohibited coming within sixty-five miles of London, and are limited to a fixed circulation in all time coming. As Mr. Bagehot has remarked, "The English system was, I venture to say, almost spoiled; I do not say for the *real* benefit of the Bank of England, but for its *supposed* benefit."

Now, what is the state of matters as regards Scotland? How do we find the banking interest, and the more important public interest of Scotland, affected by the freedom from State interference and the claims for exclusive privileges by any one bank? If we follow out a few facts connected with Scotch history, we shall find that the place and power of the one pound note has been an important factor in her prosperity; that it is really, after all, this "one-pound pivot" upon which the whole question turns.

The Bank of Scotland, like the Bank of England, was established by Royal Charter, but while the latter was a State institution, the former was not; in fact, it was the first Joint-Stock Bank in Europe that was entirely unconnected with the State.

It was founded not as a State expedient for extricating a spendthrift Government out of its difficulties, but for the

purposes of trade and profit, and on the principle that it would borrow from all who had money to spare, and lend to all who needed capital and deserved to be assisted.

The Bank of England allows no interest to her depositors and allows no account to be overdrawn; and so at first did the Bank of Scotland, but since 1707 she and the other Scotch banks since established have allowed interest on money deposited, irrespective of the amount, while overdrafts to approved customers have been freely allowed.*

Up to 1704 the Bank of Scotland, like that of England, issued notes of £100, £50, £20, £10, and £5, but none of £1. Unlike the latter, however, her issue was unrestricted; that is to say, the Bank might issue as many notes as the public were willing to receive, irrespective of the gold and silver in the Bank vaults. In that year a commercial crisis took place. It appears that the Scotch merchants had at the beginning of the century been buying foreign goods freely, more than could be paid for by our manufacturers, which caused an unfavourable exchange and a great export of specie; the resources of the Bank were consequently very much crippled, and there was little money in circulation in the country.

To supply the demand for a small currency, it was resolved to issue *One Pound Notes.* Had confidence in the Bank's issue been strong enough, the expedient would have saved the Bank, but a report was spread that the money was to be raised by proclamation, which caused a run upon the Bank of Scotland, and in a few days compelled it to stop payment. It weathered the crisis, however, confidence was restored, and the One Pound Note has continued ever since to be an important feature in the currency of Scotland.

The note circulation was, as a matter of course, very limited at first, being chiefly confined to the neighbourhood of Edinburgh; but as it was quite unfettered, being accepted by the public on what may be called the "historical credit" of the Bank, it, in course of time, proved a valuable feeder to its deposits.

No doubt it took many years to establish in the provinces the confidence the Bank had acquired in the capital, as is shown by the two attempts which were made in 1696, and again in 1731, to establish branches in such towns as Glasgow, Aberdeen, Dundee, and Montrose, and relinquished after one or two years' trial. To us, who are accustomed to have a bank in almost every village, it seems strange to find the commercial intelligence and enterprise of that period so

* Since 1892, interest on current accounts has been discontinued, and is now only allowed on money lodged on deposit-receipt.

limited, that in these towns, now the great centres of commerce and manufactures, a bank was found not to be a necessity, and that the efforts of the directors to supply banking accommodation, and to extend the circulation of their notes throughout the kingdom, were premature. No attempt was made to establish branches for nearly half a century after. In the year 1774 it was tried for the third time, "and now, with success, by planting branches at Dumfries and Kelso. The Royal Bank was not so enterprising. In 1780 a proposal was made to the directors to establish an agency at Paisley, but their resolution was 'not to meddle with any such business as establishing branches in any part of the country.' Three years later they placed a branch at Glasgow, but notwithstanding the success of this step, the policy of 1780 was obstinately adhered to for nearly eighty years."—("Scottish Banking," by James S. Fleming, page 30.)

Local bankers, as in Aberdeen, Dundee, Ayr, and Glasgow, had sprung up, and had not failed to recognise the advantages of the right to issue their own notes; and it is interesting to find Mr. Bagehot drawing the attention of the Committee of Parliament to a curious body of statistics published by the Bank of Dundee, which very well illustrates the principle he lays down—viz., that "credit is the historical element of political economy. The opinion people form of one another (which is the basis of banking) necessarily depends upon historical considerations, and it cannot be changed with the same facility with which you can change any ordinary element in mercantile business. The easiest way," he continues, "to develop credit *is to issue notes;* then these notes get about into the hands of the public, and the people gradually find, having those notes, that they are trusting the bank, and that they will run no further risk if they bring them *to the bank. The system of deposits gradually grows out of a note issue,* because there is no increase of confidence required."

The statistics of the Dundee Bank, referred to, show the accounts from 1764 to 1864, and it appears that "for nearly thirty years after their establishment they had no deposits at all, they were a *mere Bank of Circulation.* In that way they established themselves, and gradually the deposit system was introduced."

So far as the issue of notes was concerned, there was in Scotland no such monopoly as we find existing in England; for the various banks—public and private—which were successively established, enjoyed equal rights in this respect, that they might do so to such an extent as the public were willing to receive them. And we have a curious illustration of this

common law right stated by a correspondent of the *Scotsman* in a letter to that paper in February, 1891. "He remembered sixty years ago notes were issued by Mr. Sinclair, who at that time was a distiller and merchant in Tobermory. There was a scarcity of silver in the Island of Mull, and he issued notes of 5s. each. They were a little less than One Pound Bank Notes, neatly lithographed and signed by Mr. Sinclair, bearing the following on the face of them:—'For four of these notes I promise to pay One Pound sterling at my office in Tobermory.' They were current in many of the Islands, and were found to be a great convenience. Mr. Sinclair gave up business and bought an estate in Morven. He called in his notes, but they were greatly missed by the people of the Island. His profit consisted in the interest of the money while the notes were in circulation and in any that might be lost." The Bank of Scotland had at first by its charter a monopoly, no doubt, but on the expiry of its charter in 1726, it was not renewed, and absolute freedom in banking existed down to 1845. While the monopoly of the Bank of England imposed restrictions on the issuing of notes, limited the number of partners, and restrained the limit of operations of the English banks, Scotch bankers were unfettered as to the quantity of notes they might issue, the number of their partners, or the area of their operations.

A good deal has sometimes been made of the united action of the Scotch banks in fixing uniform rates of interest, discount, and other charges, and founding upon it the charge of monopoly. But this is more apparent than real. The competition between the banks for business is of the closest and keenest description. The country has been studded with branches, and nearly every street in our cities is supplied with banking facilities, and this has been carried to such an extent that while in 1885 the branch offices in Scotland numbered 940 they have increased in the twenty-seven years since then to 1250. Many of them are conducted by agents having a separate business of their own, and, their expenses being small, they are a great advantage in country districts, where, but for the fact that they are part and parcel of strong institutions whose notes serve them for till money, no bank could profitably exist.

The monopoly practically given to the existing Scotch banks in the Act of 1845, when it fixed the authorised issue in that year at the amount then issued by each bank for all time coming to the exclusion of any new bank, cannot well be defended. Sir Robert Peel, no doubt, wished to strengthen the position of the banks having right of issue, in order that their notes might have the confidence of the country. But he looked at Scotch banking through English spectacles. He saw that the mono-

poly of the Bank of England had driven banking in England into weak hands, and there was a danger in the bank notes of the small provincial banks being depreciated, leading to "speculation, crisis, and collapse." He seems, therefore, to have had in view the ultimate abolition of the private issues of the country, in order to pave the way for a "power of issue restricted to a *State bank*, or *the State itself*." The original proposal in the Acts of 1844-45 to abolish the one pound note altogether in Scotland and Ireland, as it had been in England, showed that he did not wish to give the banks of these countries any new privileges, but rather desired to curtail the freedom of issue they formerly enjoyed. In Ireland at that time there were still certain Private Banks which had not the power of issue; but in Scotland all the Private Banks of Issue had ceased to exist, having been absorbed by one or other of the great Joint-Stock banks. Yielding, therefore, to the force of strong public opinion from Scotland, where confidence in their banking system had for years been established, Peel was compelled to abandon the idea of abolishing the one pound note, but confined the restrictions of the Act to a limitation of each bank's circulation. Even this limitation was not absolute as in the case of the English banks, for they were allowed the valuable privilege of *unlimited circulation against coin*. Not only so, but the privilege of issuing notes at all was confined to the sixteen banks which were then in existence; thus fostering the growth of these banks by a practical monopoly of the banking business of the country. That this monopoly has not been found to be detrimental to the commercial interests of the country is very generally admitted, however indefensible it may be in principle.

Let us compare it in its results with the system under which the English public have had their interests, as well as the interests of their banks, especially in the provinces, sacrificed to State policy and the monopoly of the Bank of England.

That policy, steadfastly adhered to for 132 years down to 1826, had been to prohibit and discourage in every possible way large strong banks having ample capital and numerous shareholders.

In their place we find throughout England a mushroom growth of small private banks, purely local in their character and connection, and unable very often to dispose of their deposits to advantage, while their notes seldom circulated beyond their own town or parish.

The pernicious monopoly of the Bank of England strictly forbade any company "*exceeding the number of six persons* to borrow, owe or take up any sum or sums of money on their

bills, or notes payable on demand, or at any less time than six months from the borrowing thereof," and so, public confidence, never very strong, was easily shaken by the slightest rumour affecting their credit. Their frequent failure destroyed public confidence, and led to frequent panics. On the authority of Mr. Orr Ewing we learn that *one-third* of the country banks in England stopped in the year 1793, while no less than 311 failures are recorded as having occurred between 1809 and 1830.

Such a state of matters made it clear that the system of limiting the number of partners to six was most detrimental to the interests of the community, and led to a consideration of the inexpediency of retaining in its integrity the Bank of England monopoly, and accordingly it was enacted, in 1826, that banks might be formed with a partnership of more than *six* persons, provided that they did not conduct their business or *issue notes* within sixty-five miles of London. From the passing of this important Act may be dated the rise of the large Joint-Stock Banks of England. In 1833 the London and Westminster Bank, confining its operations to the neighbourhood of London, and the National Provincial Bank of England, with numerous branches throughout the kingdom, were founded. They, and the many Joint-Stock Banks since established, have met with such a measure of success as fully to warrant the necessity of the Act that led to their formation. The former never was a Bank of Issue, but the latter for many years was a Bank of Issue, circulating its notes all over the kingdom from its various branches, of which it has now one or more in no less than forty counties. The privilege of issue it, however, relinquished, in order to comply with the legal conditions of the Act of 1826, to have an office and to do banking business within the sixty-five miles circle of London. The right of issue enjoyed by the bank amounted to £442,371, and in the rural districts it was a great advantage, and in many cases made all the difference between a small branch being remunerative or otherwise. Two-thirds of these branches were established before it gave up its right of issue, and it was admitted by Mr. Wade, one of their Directors, that had they given up their issue twenty years previous, it would have materially affected the number of their branches, but as it was, "they had grown to be a large bank, and therefore could afford all the accommodation which was required of them." There is no doubt that much of the early success of the National Provincial Bank of England arose from its note issue, well supported by a numerous and wealthy proprietary.

Since 1826 the tendency in England has been to merge the Private banks in Joint-Stock banks, having a large pro-

prietary, a wider connection, and consequently greater security to the public.

The period of private banking had passed, as it had done many years before in Scotland. The country had entered on a new banking epoch, thanks to the removal of part of the Bank of England monopoly. No doubt before this stage in Scottish banking was reached there were many disastrous failures in our banking system; perhaps the most disastrous being that of the Ayr Bank of Douglas Heron & Company; but Scotland was so far ahead of England in this respect, that the joint-stock principle was from the first recognised and acted upon, with few, if any, such restrictions as existed in England.

Failures, no doubt, have occurred even in later times in Scotland, and though of a formidable character, and involving much loss and consequent misery, they have not to any extent, if at all, shaken the confidence of her people in the soundness of the principle upon which the banks are founded. As Mr. Fleming stated, "the confidence of the Scotch people in Scotch banks rests upon this: they know that there has been one bank established for 200 years, that another bank has been established for 150 years, and others for shorter periods: that those banks have carried on their business with success, and with comparative immunity from loss, and that banking failures have been almost unknown."

In the case of the Western Bank, which failed in 1857, and the City of Glasgow in 1878, the public, whether as depositors or note-holders, *suffered no loss whatever.* Both banks paid to their depositors and note-holders 20s. in the pound.

The case of the latter is certainly most remarkable, as proving the broad basis of responsibility upon which the Scotch banks rest; for while its stoppage was doubtless caused by deplorable mismanagement—the culmination of a long period of commercial depression, almost unparalleled in modern times—so that over and above its capital of £1,000,000 it had actually lost no less than five millions, the shareholders were able to pay every creditor in full.

One great feature of strength in the Scotch banks is in their having a large paid-up capital—only one of the existing eight banks having less than one million of paid-up capital, while the Royal Bank has a paid-up capital of *two* millions.

The total paid-up capital of the ten banks amounts at the present moment to £9,227,000 sterling, while the subscribed capital is £28,497,500.

The English Joint-Stock banks, on the other hand, though enjoying a larger amount of public confidence than most of the private banks, have never stood so high in public favour as the

Scotch banks. Their capital is smaller as a rule. Thus, as shown by the evidence given to the Committee of the House, the aggregate capital of *twenty-one* English provincial banks, whose deposits then amounted to the same as the *ten* Scotch banks—viz., £80,000,000—was only £8,670,000; or, if we except the National Provincial Bank of England, whose capital was by far the largest (being £1,350,000), the average capital for these twenty banks was only £366,000. Ten of these banks are Banks of Issue, with over 200 branches, and a note issue of only £440,000, whereas the ten Scotch banks (*all* Banks of Issue) had then some 930 branches, and a note circulation of about six millions. The Scotch banks have ever endeavoured to secure public confidence to the extent of their capital, "and they have"—to quote a letter from Mr. Robert Bell, manager at one time of the City of Glasgow Bank at Edinburgh, who was examined before a Committee of the House of Commons in 1848 on Commercial Distress—"continued to pay moderate dividends to their shareholders until justified in augmenting them by years of success and a large sinking fund. So well indeed is this system understood, and so completely has it attained its purposes, that the slightest appearance of improvidence displayed by a Scotch bank in fixing the amount of its dividend, has been invariably attended with a decrease of public confidence in the stock of the establishment. Thus public confidence has been secured, and instead of being looked upon as establishments aiming at the ephemeral advantage of making a large dividend, for stock jobbing or temporary purposes, the Scotch banks have almost invariably assumed the character of permanent national establishments, *identified with the prosperity of the country*, and, by means of their SMALL NOTE CIRCULATION, conferring benefit on, as well as obtaining the confidence of, every class of the community."—(Gilbart, page 494.)

Similar testimony was also borne to their high character by Sir Robert Peel in his speech introducing his famous measure on 25th April, 1845. "We trust," said he, "to their own discretion to do that which is calculated to secure the confidence of those who deal with them. We are willing to trust to the honour of the bankers, both in Scotland and Ireland, as to their retaining in their custody a sufficient amount of assets to meet their circulation."

This leads us to dispose of an objection sometimes raised that because the English provincial banks cannot on any account exceed their *authorised issue*, under a penalty, and as a matter of fact are far below it, there must be greater security, not only to the note-holder, but to their depositors, than exists in Scotland, where the authorised issue has been *exceeded* by

some six millions. But that this is not so, a comparison of facts will show.

Some most interesting tables are furnished in the Appendix to the report of the Select Committee of 1875 bearing on the point, which deserve more than a passing notice. The figures there given may not now, after thirty-six years, be absolutely applicable, but any alteration that may since then have been made will not affect our position.

In England and Wales we find that in that year there were no fewer than 168 banks, both Private and Joint-Stock, authorised to issue notes. The amount of their authorised issue was £6,460,985, but their actual average circulation was only £4,876,900, being a proportion of actual to authorised circulation of 75 per cent. This was exclusive of the Bank of England circulation of *twenty-six millions.* In Scotland, on the other hand, there were *then* eleven banks. The amount of their authorised issue was £2,749,271, but their actual average circulation was £6,000,000, of which fully two-thirds, or *four millions*, were in one pound notes.

This large excess of issue seems formidable, but how does it compare with their other liabilities. In the same year—1875—we find the total liabilities of the Scotch banks amounted to close on one hundred and six millions, made up as follows:—

| | |
|---|---|
| Paid-up capital, . . . . | £9,697,000 |
| Reserve fund, . . . . | 3,607,000 |
| Undivided profits, . . . . | 1,134,000 |
| Note circulation, . . . . | 6,634,00 |
| Drafts, . . . . . | 1,367,000 |
| Acceptances, . . . . | 5,120,000 |
| Deposits, . . . . . | 78,401,000 |
| Total, . . . | £105,960,000 |

In 1900 this liability had increased to a hundred and thirty-seven millions, and the note circulation to £8,057,640, an increase of liabilities which is still going on, and had reached in 1911 to £139,432,800, but with a decrease in the note circulation to seven millions and a quarter. So that after all, the note circulation is a very small part indeed of the general liabilities of the banks to the public.

Unfortunately, the figures furnished in the table of analysis for the English provincial banks are not so complete as to enable us to compare them with the Scotch banks; but turning to a similar table relating to the London Joint-Stock banks, which are *not* Banks of Issue, but whose obligations to the public, compared with their capital, were about £32,000,000 *higher* than that of the eleven Scotch banks, we find the amount

of cash, and Government and other securities in the hands of the eleven London banks, to be *less* by about *three* millions than that held by the Scotch banks in proportion to their liabilities. We do not say that the London banks referred to are therefore insecure, or even less secure than the Scotch banks; we merely wish to point out that, so far as reserves are concerned, the reserves of the Scotch Joint-Stock banks are stronger than those of the eleven London Joint-Stock banks, though for all practical purposes the latter may be amply sufficient.

The relative position of the Scotch note issues to the other liabilities of the banks being thus comparatively small, there has seldom been any fear in the public mind as to the full payment of their notes. Even in times of panic, as in 1857, when the Western Bank failed, the City of Glasgow closed its doors for a time, and the Edinburgh and Glasgow Bank was forced to amalgamate with the Clydesdale Bank; and again in 1878, when the City of Glasgow Bank closed its doors for the second and last time, public confidence in the One Pound Note remained unshaken. These were, of course, not retained in the hands of the public for circulation, but the fear was not so much about the safety of the notes as of the far larger liabilities in deposits. The wise action of the other Scotch banks in accepting the notes of the banks which had failed, greatly helped this feeling and tended considerably to allay the panics. Had the other Scotch banks not done so, we may judge of the result by the experience of a day or two in 1857, when, forgetting their traditional policy, they refused the notes of the two suspended banks. The feeling of distrust and alarm was aggravated at a time when it was the duty of every one to calm and soothe the fears and apprehensions of the people, more especially when the ultimate payment of the notes was never in doubt.

The then unlimited liability of the shareholders for the greater debts ought to have placed beyond suspicion the lesser debts to the public in the form of notes in circulation. The Bank Act of 1879, which enabled the banks to register themselves under it as companies of limited liability, and which has since been adopted by all the banks which were not previously "limited" by their charters—as the Bank of Scotland, Royal Bank, and British Linen Company—distinctly recognised the priority of the notes as a claim on the assets. Their liability is limited by the Act only as regards the ordinary business transactions, the liability for note issue being still as unlimited as before. Practically, therefore, while the partnership liability of these banks is limited as regards their ordinary business to their nominal capital, *all* the wealth of the pro-

prietary beyond that is now responsible for their note circulation, so that it would seem as if the note security is now more worthy of public confidence than before.

The fact that the convertibility of the note has been maintained in Scotland for a period of two hundred years, and that too in commercial crises as severe, perhaps, as any likely to arise, is sufficient answer to those who assert that, without a reserve to secure its convertibility, and to confine it within the limits of a metallic currency, there is a danger of *over-issue.*

Let us see how this works. For their *over*-issues the Scotch banks must keep in their vaults pound for pound in gold; but, as we have shown, that represents but a fraction of their liabilities. As Mr. Dun explained to the Committee of the House of Commons: "The Scotch banks have their account with the Bank of England, and they have their reserves there; a balance to the credit of a Scotch banker in the Bank of England is just as useful for him to draw upon in case of need, because he can get the gold down to Scotland at once." All experience since 1845 proves, however, that the law, in insisting upon the gold being in the vaults in Scotland whenever the trade and commercial exigencies of the country require a large increase in the currency, though it may be justified theoretically, is practically a blunder. Thus at the Whitsunday and Martinmas terms, when rents are paid and settlements for investments effected, demanding for a few days double it may be the ordinary currency, the Scotch banks have frequently to draw upon the Bank of England for a supply of gold to cover—*not* the *demand for gold*, but the excess of *notes* over their authorised issue, which may be required by the public.

The banks do not need it, but the Act of 1845 insists upon them having it at their head offices till the excess of issue is reduced to its normal state. Mr. Palmer, the Deputy-Governor of the Bank of England, stated "that the amount of gold thus transmitted in May and November varied from £300,000 to £500,000, according to the amount of coin that may happen to be in Scotland at the time," and he added, "the amount is returned *to* as regularly as it is taken *from* London, and frequently in the same boxes!"

Were there a proper understanding with the Bank of England or the Government, whereby securities in London would be accepted from the Scotch banks for this occasional excess of issue, all this trouble, risk, and expense might be saved. Mr. Readman, late manager of the Clydesdale Bank, on being asked, "Would you prefer keeping Bank of England notes against your over-issue?" replied, "It would be a convenience to us, because they are more easily transmitted. As

an instance of the operation of the law, I may mention that within a month, since I was in this committee-room, we have been obliged to send down £100,000 in sovereigns to Scotland at a considerable expense, and at a certain amount of risk. Last night we returned £50,000 of that amount in the identical boxes in which they came. We never saw the gold; it goes back to the Bank of England with the seals unbroken, and we incur all the risk and expense of sending it backwards and forwards."

While, therefore, the right of issue possessed by the Scotch banks—and especially the £1 note issue—is a most valuable privilege, and has been productive of the utmost extension of banking facilities to the public, much beyond those enjoyed by the people and banks in England, the Act of 1845 has fixed certain limits beyond which these advantages shall not go.

The State, stepping in, says, You banks having long enjoyed the privilege of issuing as many notes as the public require, we will not take it from you; but while we have resolved that no new bank that may hereafter be started shall have the like privilege, we virtually give you a monopoly of your present circulation. We must, however, restrict your freedom somewhat, by placing certain fetters upon your over-issue. If the exigencies of trade require you to issue more notes, say five, fifteen, or fifty years hence, we must make sure the public are not led to take more than you are able to pay in coin of the realm.

By this means, a source of profit to the banks has been taken from them. The ever-increasing trade of the country is constantly demanding an expanding currency, and the popularity of the £1 note in preference to gold in a measure compels the banks to meet the demand even although the *excess* of issue is no longer a source of profit, as was repeatedly stated in the evidence of all the Scotch witnesses. The *authorised* issue, *directly* and *indirectly*, is admitted to be a source of profit, but not the excess; or, as Mr., afterwards Dr. Gairdner, late manager of the Union Bank of Scotland, put it—"There are two ways in which the issue is valuable: there is the direct profit in respect that there is no interest paid upon it; and there is the indirect profit, by having the use of the notes at our branches. The direct profit is *not* increasing, but is seriously *diminishing*, because while the portion which is authorised, and upon which we have the advantage, is limited, the taxation is upon the total amount of our active issue which is always increasing every year; and therefore the direct profit from our issue is less now than it was ten or twenty years ago."

The advantage is therefore now in favour of the public, who have the use of a convenient portable currency, while the State enjoys a considerable revenue from it, and must be saved

the expense of an equivalent amount of coinage. It was stated by Mr. Davidson, the Treasurer of the Bank of Scotland, that the amount paid to the Government in 1874 for stamp duties by the Scotch banks was £24,269, and for licences to issue notes £16,590 (£30 per annum being paid by every branch office opened since 1845), the total being £40,859. In 1874 the average circulation was £5,904,586, so that the charge upon the circulation of that year was at the rate of 13s. 10d. per cent.

There is no corresponding statement in the Blue Book relative to the duty paid by the English provincial banks, but we find that the Bank of England pays for its circulation at the rate of 13s. 8d. per cent., while the National Bank of Ireland, with 76 branches, pays the £30 licence on only four of these, which, with the duty on their circulation, makes a total payment to Government of only 7s. per cent. on their circulation.

It is obvious, then, that as the Scotch banks have heavier restrictions on the conducting of their business since 1845, the public will in some way suffer. In reference to this, Mr. Gilbart, in his "Principles and Practice of Banking" (page 502), says: "To make up the same amount of profit as heretofore, the charges for discounts and advances are increased. This illustrates a principle that we think will always be found correct, that *restrictions upon banks are taxes upon the public.* This principle is not sufficiently obvious to statesmen, nor even to the public in England; the mercantile classes have been pleased, rather than otherwise, when laws have been passed injurious to bankers. In Scotland, such matters are better understood. The commercial classes have always rallied round the banks; they have had the sagacity to perceive the truth of the principle we have advanced; they know that capital employed in banking must be made to produce an average profit, and if the Legislature causes one branch of business to be less productive, the bankers must make other branches more productive, in order to render capital employed in banking as profitable as it would be if employed in other occupations. But the Act of 1845 not only increased the charge, it led to a limitation of accommodation. There is no one point on which Scotchmen of all classes are more unanimous in opinion, than on the advantages that have arisen to the country from the system of cash credits. This system can exist *only with a note circulation.* One of its objects, on the part of the banker, is to increase his circulation. But he has no profit by increasing his circulation of notes if he must keep in his coffers an additional amount of gold equal to that increase. But gold is the idol of our currency theory. The

cash credit system, therefore, with all the virtues it produced, has been offered up in sacrifice to this 'golden calf.'"

Until within recent years, the cash credit system was practically unknown in England. It has been developed to some extent in several of the northern counties, but, generally speaking, it forms no part of the English system of banking. And why? Because, as a rule, no provincial banker has any interest in having an extensive circulating currency. He aims rather at keeping *within* his authorised issue, to avoid the penalties of the law: and as these issues have been fixed sixty years ago, and are in the nature of things inadequate to the growing demands of the day, he cannot afford to incur those penalties while advancing credit on the easy terms of the Scotch banks. The cash credit system is essentially a Scotch institution. It was originally introduced by the Royal Bank as early as 1730, and there is no doubt has been the means of stimulating the agriculture and commerce of the country to an extraordinary extent.

It is briefly this: on the security of two or more persons of undoubted respectability and worth, an account, similar in every respect to a current account, is opened in the bank books in the name of the person wishing the necessary credit to carry on his business. He may be a man of small means, but if he be industrious and steady, and has a reasonable prospect of succeeding in his enterprise, upon that security the bank will advance £500, £1000, or £10,000. But as the exigencies of his business may require the outlay of a larger amount of money at one time than another, instead of drawing the whole sum from the bank at once, and paying discount as an English tradesman would do were he to get an advance from *his* banker on the security of a bill, he merely draws from time to time such sums as he requires. Suppose the amount of the cash credit bond to be £500, in the course of a month he may require, say, £400 to meet his obligations to various creditors; this he draws from the bank in such sums and at such times as his obligations fall due. But as he is at the same time drawing money from those who purchase from him, he sends these drawings to the bank to be placed to the credit of his account, so that, if in the course of the month he pays in to his credit £300, and has drawn out £400, he will at the end of the month be due to the bank only £100, while the banker charges interest on the actual balance that from day to day happens to be against the account. Thus the party having the credit only pays interest for the exact sum that his business engagements require for the time being. Very often in the course of a year, instead of being indebted *to* the bank, his account

may have a *creditor* balance, in which case the bank ceases to charge.

Mr. Gilbart very justly says of cash credits as practised in Scotland :—"They have enabled young men of good character to acquire wealth and respectability. They greatly facilitate tradesmen and others in carrying on their business, either in the way of making purchases or in employing, at particular seasons, their surplus capital. They prevent large manufacturers setting up as bankers, and thus exclude those evils which in other countries have resulted in the failure of private banks; and lastly, they have a moral influence on the habits and character of the people."

It would be very remarkable if the advantages of such a system were not sooner or later made apparent to the English public. Hence we find a considerable conformity within late years to Scotch practice has been effected by many of the Provincial banks, especially in the North of England. The character and influence of a Scotch bank training has indeed been so highly appreciated in English banking circles, that many of the leading English banks are now under the management of Scotsmen, and large drafts are from time to time made upon our Scotch banks for clerks to staff these and our Colonial and Indian banks. So imbued, indeed, have both English and Colonial banks become with Scotch personality that an assimilation is gradually but surely being made by them to Scotch methods.

Thus we have Mr. Dun, manager of Parr's Banking Company, a Scotch banker, and well acquainted with the banking systems of the two countries, stating :—"We make advances to our customers, and we take from them letters of guarantee by friends, very much to the same purpose as the Scotch cash credits are, and we also advance money. We have this advantage, I think, in banking in England which Scotland has not, that we advance money upon the deposit of title-deeds, which forms an equitable mortgage upon property."

Parr's Banking Company is not a Bank of Issue. Within the past thirty years its career has been a most prosperous one. In 1874 its paid-up capital was only £150,000; this was increased from year to year, till in 1885 it stood at £560,000, while the subscribed capital was £2,800,000. Its branches in 1885 numbered twenty-seven, against sixteen in 1874, while its deposits in the same period were quadrupled, amounting at December 31st, 1884, to £4,634,761. And on referring to its profit and loss account, we find that in 1884 the gross profits of the bank on the paid-up capital of £560,000, was no less than £155,236.

Now, if we turn to the figures referring to the Scotch banks, in the first table herewith appended, it will be found that these, with an average paid-up capital nearly double that of Parr's Bank, earned an average profit of only £93,450. There are three ways in which this great difference in profits may be accounted for, and we may here state that the figures referring to Parr's Bank are merely taken as a fair specimen of other Provincial banks in England similarly circumstanced. In the Blue Book of 1874-75, tables of analysis are given showing that the profits of the English banks—both those having the right of Issue and those without this right—are considerably higher, alike as regards their capital and deposits.

This must arise from either of the following three causes, or more probably from these combined :—1st. Either the rate of interest allowed to depositors is lower than that allowed by the Scotch banks; or, 2nd, the charges for accommodation are greater; or, 3rd, the working expenses of the Scotch banks are higher than that of the English banks. It speaks volumes to the credit of the management of Parr's Bank that its affairs now show a very decided advance since the period under comparison. With a capital of £12,500,000 of which £2,204,780 is paid up, its profits for the year 1911 have reached the handsome sum of £505,854, yielding a dividend of 20 per cent.

As regards the payment of interest in England, we find an absence of uniformity, so that it is difficult to formulate any general statement applicable to the banking system of the country; but it may be safely stated that the practice varies in different localities, and is largely regulated by local custom. The opinion a bank manager may form of his customer's business with the bank seems in some cases to regulate the question whether the customer shall be allowed interest on his account or not. Thus most of the English banks give no interest on deposit accounts, on the understanding that they will charge nothing for negotiating country cheques. "If we allow interest," says Mr. Melville—at that time Chairman of the Association of Country Bankers in England—"we make a charge of 2s. 6d. per cent. for remittances." . . . "If a person prefers keeping a *respectable* balance (whatever that may be), and says he had rather not have interest for it, *we give no interest.* If, on the other hand, he says 'he would rather have interest,' then we give it. We had," he continued, "two large accounts come lately; one of them said, 'we do not want any interest, we want to keep a good balance with you; we want you to find us cash to pay our workmen.' I said, 'it is one of my principles to find anybody that keeps an account with me any sort of cash that he wants. We shall be happy to have the

account on your terms.' And that has proved a very good account." No doubt it would! Banking on such principles may well be profitable. But is it likely such a system will much encourage thrift among the middle classes? We think not.

In London the private banks usually grant no interest for money placed in their hands, nor charge any commission upon the amount of the transactions. Their customers pay them for the trouble of conducting their accounts by keeping a certain balance to their credit. While in most of the Joint-Stock banks in London the same system is practised, very frequently the account of the customer at the end of the year being debited with a charge for keeping the account. As Mr. Gilbart in his history truly says:—"Such banks appear adapted for the service of the rich rather than the poor. A young tradesman who is commencing business with a slender capital will hardly find it worth his while to open an account at a banker's unless he has always by him a certain portion of his capital which he is obliged to keep unemployed."

It is but fair to say, however, that in England, especially in the Provinces, many of the banks are acting more liberally towards their customers than they did at the time these words were first penned, with corresponding advantage to themselves as well as the public. Advances are now made freely upon heritable securities, and the assignation of share certificates. Our contention is, that their *system* does not permit them to give equal privileges to their customers as the Scotch public enjoy.

In the matter of working expenses, the Scotch banks are considerably higher than the English banks, but this is simply on account of the large number of branch offices which the former have. There are many large towns in England very badly provided with banking facilities, whereas in Scotland there is scarcely a town with a population of over one thousand which has not one or two banks. Thanks to the £1 note, the Scotch banks have been long able to provide facilities for well-directed enterprise, and have assisted to develop the trade of the country to a remarkable degree. By their means many have been raised to rank and fortune, who, but for their help, might have remained in obscurity and poverty. In this way the power of "littles" has been wonderfully exemplified. The public have longed learned this, that if they can trust the banks so far as to take their *notes* in payment of goods or services, they may as well trust the banks to keep these notes for them. Accordingly we find every tradesman of any standing, takes his cash and notes to the bank, or the branch in his neighbourhood; opens an account from which he knows he can draw what he wants at any time, up to the amount of his

balance, or even beyond it if his credit be good. The development of the Scotch branch system, with the competition among the banks for business, has very largely encouraged a habit of saving among our artisans, shopkeepers, farmers and others, so that, as it were, the loanable capital of the community has been gathered together by the enterprise of our banks, in order that it may be so distributed as to fertilise commerce and manufactures.

Some of the English witnesses, particularly Mr. Rae, Chairman of the North and South Wales Bank, frankly admitted in 1874 that in this respect our banks more effectually "drained" the country of deposits, and developed trade and thrift to a greater extent than the English banks were capable of doing. In England, as he showed, there is not the same number of banks in proportion to population, and consequently there is not the same competition for deposits as in Scotland, "where the bank offices exceed those in England by about *four to one*."

The public know that no depositor or note-holder in Scotland, for a great many years back, probably not since the failure of the Ayr Bank of Douglas Heron & Company in 1772, has ever lost a shilling, even from those banks which have stopped since then; and hence they have the utmost confidence in placing their money in their keeping. Money is in this way deposited in the most remote, and sometimes insignificant, villages in sums of £5 and upwards. Those who lodge it may be poor but industrious people, but the opportunity for practising thrift, which the presence of a bank in their midst affords, has a great moral influence on their material prosperity, stimulating their energies, and encouraging that spirit of independence so dear to every true Scotsman; while, on the other hand, the country at large gets the benefit from the use of their savings, as fresh capital to fertilise commercial enterprise. The tables furnished to the Committee by Mr. Gairdner, on behalf of the Scotch banks, abundantly bear this out, that a large portion of their deposit-money is the savings of *small* depositors. Thus, in the first table we find that the total deposits in the hands of the banks in 1874 was £76,243,273, representing 417,657 depositors. Of these, 290,885, or 69·65 per cent., *did not exceed* £100, while 347,330 individuals, or 83 per cent., were depositors of sums not exceeding £200 each, representing £20,616,000, equal to 27·10 per cent. of the whole deposits of Scotland.

The English banks did not favour the Committee of the House with a similar table, and indeed it is rather unfortunate that the otherwise most admirable and suggestive tables,

published with the Report, are incomplete in several cases affecting the English and Irish banks.

For some reason or other, a number of the banks in these countries did not make the returns asked for by the Committee; while in almost every case the Scotch banks most readily furnished all the information desired, so far as they were able. There is one exception to which reference must be made. It is that of the National Provincial Bank of England; and it only confirms the soundness of the theory, that it is large Joint-Stock banks doing business over an extended area which will best command the public confidence, and gather in the largest number of small deposits. The total deposits of that bank in 1874 amounted to close on £23,000,000, representing 122,700 depositors. Of these 83,723, or 68 per cent., did not exceed £100, or £3,600,000. The bank enjoys the well-merited esteem of the country, and this high percentage of small depositors, which appears to be far above that of any of the private banks, is no doubt due a good deal to the fact that it was, until recently, a Bank of Issue. Like that of Parr's Bank, the last statement of its affairs (January 1900) shows a remarkable advance. The National Provincial Bank of England, with a capital of £3,000,000 fully paid up, and a reserve fund of £2,150,000, holds now from the public in deposits no less a sum than £63,000,000; its business yielding the shareholders the handsome dividend of 18 per cent.

Let us look at the matter in relation to population, and what do we find? Founding upon the statistics supplied in 1875 by Mr. Palgrave, of Messrs. Gurney & Co.'s Bank, Great Yarmouth, and a considerable authority on banking subjects, England, with a population (excluding London) of fifteen millions, had then not more than £200,000,000 deposited in the Provincial banks, while in Scotland, with a poorer population of three millions and a half, there was then upwards of £80,000,000 deposited in the Scotch banks; the proportion in the latter case being at the rate of £24 per head, while in the former it is only £13 per head of the population.

The operation of the Act of 1844 is certainly not in the direction of encouraging a feeling of confidence in England, for the circulation of notes, we are told, is gradually on the decrease; thus, thirty-six issuing banks reported that the proportion of their circulation to their deposits had decreased from 17 per cent. in 1844 to 4 per cent. in 1874.

Mr. Palgrave insists that this arises not so much from the "decrease in their circulation, as in the increase of their deposits." Well, be it so; we know that many banks have voluntarily relinquished their circulation, while the failure of

others has caused a considerable diminution in the paper currency, so that in 1874 the total circulation of England and Wales (exclusive of the Bank of England, whose circulation had increased six millions) was some three millions less than in 1844. But has the increase in the *deposits* been commensurate with the increase of *wealth* and *population* within the same period? We think not; for, if it be true as Mr. Palgrave says, "that in every country in which there has been a Provincial note circulation (including not only England, Scotland, and Ireland, but Sweden), that circulation has preceded and fed deposits," a diminution in the note circulation must correspondingly retard the natural tendency of deposits to increase in a like degree.

If this be o, then we think, with Mr. Gairdner, "that the English banks must fail to gather in the cash of the country in the way in which they do it in Scotland." That to the small note, or One-pound circulation, is largely due the credit of this state of things is evident, when we find Mr. Palgrave making the admission that "the Scotch banks have an advantage over the English banks, for there is no question that if the English banks had had the privilege of issuing small notes, their circulation would have increased like the Scotch circulation;" and again, "if the law of the country had permitted the circulation to adjust itself to the wants of the country more completely than it appears to me to have done, to *that extent the public would have benefited.*" Experience both in England and in Ireland undoubtedly shows that the possession of the power of issuing notes cannot be considered essential to the success of a *bank*, but it as undoubtedly proves that, as in the case of Scotland, it is a great factor in the prosperity of a *country*, and that while the banks have prospered under their freedom, much more have the public, for, as it has very well been put, "the less a business is fettered by legislation the more it is to the advantage of the country." As then we find that Scotch prosperity and confidence in their banks have kept pace with each other in spite almost of legislative restrictions, it might naturally be supposed that a similar amount of freedom in England might have had a similar effect in that country. In Scotland, competition by the multiplication of branches, has counteracted a restrictive monopoly unnecessarily imposed by the State. The resources of the country have been freely entrusted to the banks, and show a steady increase even in spite of the lamentable failure of the Western Bank of Scotland and the City of Glasgow Bank; thus, during the ten years from 1864 to 1874 there was an increase in the deposit money of Scotland of no less a sum than £22,000,000.

In the ten years following, though the increase was not in the same ratio, for the reasons stated, still it was considerable—being over *five millions and one-half.* In the interval from 1885 till the present day the advance has been even more remarkable, amounting to twenty-one and a half millions. The Scotch banks now hold no less a sum in trust from the people of Scotland than £107,827,637. (*See* Appendix.)

Unfortunately, in England the banking system has never enjoyed anything like the same freedom for the proper development of the "loanable capital" in the hands of the humbler classes; and consequently the want of confidence in their banks, whether Joint-Stock or Private, has engendered too frequently *hoarding* and perhaps *waste.* Even the Bank of England, with its high prestige, and all the moral weight derived from its connection with the State, has done comparatively little out of London to encourage among the people thrift or saving, or to further the interests of commercial or agricultural enterprise.

In 1826, at the suggestion of Lord Liverpool, then Prime Minister, the Bank established several branches throughout England. As they discounted bills at these provincial branches at the London rates, which were on an average one per cent. below the country rates, there was naturally strong opposition on the part of the Private and Joint-Stock banks to what they considered this unfair competition. They complained that as the Bank of England was the cause of the restrictions on their freedom, which compelled them to charge their customers more than they otherwise would do, it was unfair to allow the Bank to come to the Provinces with all the privileges of their circulation so long as the Provincial banks were debarred establishing themselves *with their circulation* in London.

Notwithstanding this advantage, the Bank of England has never been able to attract the general deposits of the country to its coffers in the same proportion, for while the branches have successfully competed with the country banks in *lending* money, as *Banks* of *Deposit* they have not been successful. A comparison of some figures laid before the Committee in 1875, if not strictly accurate at the present moment, will show the relative position of these sufficiently near for the understanding of this point. Thus we find that eleven Joint-Stock banks in London, representing a paid-up capital of £9,280,000, had in 1874 deposits to the amount of £96,900,000; ten Banks of Issue in the Provinces, having a capital of £2,959,000, had deposits to the amount of £22,584,000; eleven banks of Non-issue with a capital of £5,711,000, showed deposit money to the amount of £56,273,000; eleven banks in Scotland, with

a capital of £9,697,000, had £77,648,000 of deposits, while the Bank of England, with a proprietors' capital of £14,500,000, was only entrusted with private deposits to the extent of £20,000,000.

In other words, the twenty-one English Provincial Joint-Stock banks here referred to—of Issue and Non-issue—with a total capital of £8,670,000, held nearly *four* times the amount of deposits held by the Bank of England. And, as compared with the Scotch banks, it had only double the deposits of *each* of six of these, whose aggregate paid-up capital was *not one-half* the amount of the Bank of England's. It will be observed we have taken no note of the Bank's *public* deposits. These necessarily fluctuate with the revenue, and form a separate item in the fortnightly Bank return. As a rule, they increase gradually during the quarter, from the receipt of the taxes until the commencement of the next quarter, when they are largely reduced by the payment of dividends, &c. We are speaking, however, in the meantime, of the Bank of England, not as a functionary of the State, but as a banking concern, having money to borrow and money to lend. The large capital of fourteen and a half millions is not necessary for its purely banking business, but it may be said to be the penalty for its State connection, and its consequent note-issue monopoly. As a Bank of Deposit, we have seen how feeble a hold she has taken of the country as compared with the English Joint-Stock banks, and more especially with the Scotch banks, and this is particularly marked in the rural districts; thus we find Mr. Palmer, the then Deputy-Governor, stating, in reply to the question, "Are the branches of the Bank of England extending?" "They are not extending. On the contrary, the branches at Exeter, Norwich, Gloucester, Swansea, and Leicester *have been closed.*" That is to say, out of *nine* country branches, the Bank had found it necessary, within five years, to close *five* of them, "because they did not pay expenses." On being asked, "Do you study the interest and convenience of the public?" we have the rather ambiguous reply, "If the public had found very great use for our branch they would have made more use of it!" In the chief towns of the rural districts it thus appears that the Bank of England failed to gain a permanent footing. It is in the great centres of manufacturing industry she has fared better, for, as he went on to say, "her branches are more suited to the wants of such towns as Manchester, Liverpool, Birmingham, Hull, Leeds, and Newcastle."

In these towns we are told on authority. "they have a very fair amount of general banking business," but "the advantages

offered by the Bank of England are peculiar to the Bank from the nature of its credit; for," continued Mr. Palmer, "of course the Provincial banks and the Private banks give greater facilities to their customers than we do, especially in allowing interest on deposits, which the Bank of England does not allow." "But the branches in the above towns are," he further tells us, "a great convenience to those districts as channels for the supply of bank notes, and for the transmission of coin to and from the Bank in London.

Thus, it appears that in rural districts, where local banks are established (either Private or Joint-Stock) with the right of issue, the local issue is preferred to the issue of the Bank of England, because, as it was explained to the Committee, "*it is better known*." Mr. Gordon, manager of the Cumberland Union Bank, in reply to the question, "In Cumberland, can it be said that they are as fond of Bank of England notes and sovereigns as they are of notes of the local banks?" replied, "In the towns they make no distinction, but in the remote districts they distinctly prefer the local bank notes to Bank of England notes, because the Bank of England is not known among the country people."

On the other hand, in some manufacturing centres, where many of the banks have given up their right of issue, under the Act of 1844, and having accepted a composition for the same, now issue Bank of England notes, the inconvenience to the public is said to be frequently very great. Bank of England notes—unlike those of the other banks of the country, which issue only from their head offices—are issued not only from London, but from the branches, and as they are only payable at the office from which they are issued, the effect is to make the public careful they do not carry them beyond their own locality.

Thus Mr. T. Cooke, Chairman of the Manchester and Liverpool District Bank, mentioned—quite as a matter of course—"Occasionally slight inconvenience arises to those who may have come to Manchester with the notes of some other locality in their pockets, and such people are introduced to us, and we are asked *as a favour* to cash the notes for them."

Being asked, "Do you make any charge for cashing a Bank of England note if it be issued from some other branch than that in the town where it is presented?" he said—"Yes; if our customers pay into our bank, notes of that kind, we make them, when they draw the money out, the usual banker's charge, by which we are paid for our services."

The question may well be asked, why should the public be put to "inconvenience," and receive "as a matter of favour," besides having to pay "charges" to convert into coin a currency

so much protected as the Bank of England note is by the State, and which is asserted by the Deputy-Governor of the Bank to be more secure in its convertibility than that of any provincial notes?

But it has been shown that the Bank of England note is not convertible beyond the office whence it has been issued, for a merchant with a Newcastle note in his pocket, going to Liverpool, knows that he may be put to the "inconvenience" of asking a Liverpool banker, "as a matter of favour," to give him change for it; and he may, or may not get it, but if paid, the customer has the satisfaction (*sic*) of knowing that it is "subject to a charge!"

If this be a specimen of the advantages the country is supposed to derive from a *perfectly secure* and *indisputable* note currency, guaranteed by Government securities and £26,000,000 or so in bullion, we have reason to ask what might be the *disadvantage* of a system founded on *confidence*, the *natural requirements of commerce, freedom*, and *equity?*

We have seen the operation and influence of the bank note issue as it affects Scotland, that it is mutually for the advantage of the banks and for the community; that that advantage has followed from *comparative* immunity from restrictions by the State upon their freedom of action, and from the fact that the One Pound Note has always been a leading feature of their issue, and has been appreciated and valued as a commercial convenience by the people of Scotland.

Is it unreasonable to suppose that something similar would in time prove *as* advantageous to the English banks and the people of England? Surely if the One Pound Note circulation of Scotland has been found to be of service, its adoption by the banks in England might be found to be of service there too. There are, of course, very many difficulties in the way of such a consummation. It may be one to be devoutly wished, but scarcely to be realised, we fear, in modern practical politics. If these difficulties are insuperable, do not, at all events, let there be any further retrogression from Free Trade principles. "Monopoly" and "restriction" have in our monetary legislation been too frequently applied in the effort to keep our commerce from dreaded confusion. Let us conserve that which has proved itself an advantage to the country, while we endeavour gradually to remove any anomalies and excrescences which are found to be contrary to the true interests of the community at large. It is natural for Scotsmen to look with favour upon the system which has been throughout Europe applauded as one of surpassing excellence; but it is not without its faults, and these may be best remedied by the

removal of unnecessary restrictions and unfair monopolies. Or, to quote the words of a banker of considerable experience and sagacity—"The country circulation should be preserved in its integrity—should be rendered capable of expansion—so as to meet the demands of a more numerous population; extended commerce, higher prices, and increased taxation. Its issues should be allowed to be regulated by the demands of trade and agriculture, in the respective districts in which the banks are established, and should be rendered, as much as possible, free from the operation of the foreign exchanges."—(Gilbart.)

One thing is certain, we think, after the very decided stand taken by the mercantile classes in Scotland in 1826 and 1845, when the abolition of the One Pound Note was contemplated by the Government of the day. No such proposal can now be entertained, or is at all likely even to be proposed, and any further restrictions upon Scotch banking would at once be resented.

With a present circulation of over *seven millions*, the fact that about *two-thirds* of this amount consists of One Pound Notes is abundant evidence that this at all events is a feature of the Scotch system that has taken firm hold of the confidence of the country.

When in 1845 it was enacted that none other than the then existing banks should henceforth be permitted to issue notes in Scotland, it certainly placed a most stringent restriction upon the extension of banking facilities, and, so far, created a monopoly in our system. Fortunately, however, their right of issue was not fixed, as with the banks in England. A maximum authorised limit was fixed, but along with this the important concession was made in the case of the Scotch banks, that they might still issue notes beyond that limit, provided they had an equivalent security lodged in their vaults for the excess. This practically nullified the apparent monopoly; for, as we have seen, the branch system is due to the extension of the right of issue to whatever amount the public require, and the branches of the present existing banks have so filled up the wants of the country for banking accommodation that it is difficult to see where another large banking establishment in Scotland would find room for the employment of its capital. That the competition is very keen between the Scotch banks for business, notwithstanding their agreements and common tariff of charges, &c., is evident from the low percentage of profits on capital as compared with that of the twenty-one English Provincial banks (given at page 463 of the Blue Book). For, while the latter showed an average profit on capital of £15, the former averaged only £8, 19s. 6d. per cent.

This difference may no doubt be accounted for by the working expenses of the former being higher than the working expenses of the English banks, particularly in the way of branches. But if this be a disadvantage to the banks, it is a great advantage to the country at large, for the banks are enabled to give the benefit of this privilege because of their right to issue the One Pound Note. Without the One Pound Note there would undoubtedly be less banking accommodation in rural districts, and higher rates of charges in the larger towns; less would be given for deposits, and more would be charged for loans.

In confirmation of this we would quote the words of Mr. Gairdner: "I look," said he, "upon the privilege of issuing *small* notes as really the keystone of the whole fabric. It has proved so hitherto. If we were deprived of the power of issuing these notes, another currency would require to be found, which, of course, would be an expense to the country, and also a loss of profit to the banks themselves. . . . It would be a very unfortunate event were the banks deprived of the power of issuing *One Pound Notes.*" The restrictions placed upon the Scotch banks by the Act of 1845 were, we consider, not only uncalled for and unnecessary, but, as we shall endeavour to show, were detrimental to the commercial interests of the country.

We have only to look at the working of the system introduced in 1845 for the security of the public against the over-issues of the banks, to see that it imposed a useless burden upon the banks. Since the Act of that year was passed, the Scotch banks are compelled to have *ten times* the amount of gold in their vaults than was required before. As Mr. Gairdner remarked, "The Act does not in any way strengthen our position, nor does it add to the public confidence. . . . The present system of issue in Scotland is not based on *capital*, it is not based upon bullion held, and it is not based upon either liabilities or resources." But the public know that the strength of the Scotch banks lies in their extensive wealthy proprietary; they have *full confidence* in *that*, and their "historical credit;" and thus we find that when the Western Bank failed in 1857, the run was for payment of *deposits*, and curiously enough the payment of these was not always demanded in coin. As a matter of fact the public accepted payment to a great extent in the bank's notes, knowing that the other banks would take them readily enough. When the bank closed its doors, it had about £70,000 or £80,000 in gold in its safe, but was due the public and the other banks about £770,000 for *notes* in their hands. Yet not a holder of a note, or a depositor, suffered any loss, except from the necessary delay occasioned in realising the bank's assets. Even in the far more serious and disastrous

panic of 1878, when the City of Glasgow Bank closed its doors for the second and last time, the notes of the bank were scarcely for a moment in doubt.

The resolution of the directors to stop payment on the 2nd October of that year, had been come to as the result of a meeting of the managers of the other Scotch banks the preceding day, when, after protracted deliberations, they were reluctantly obliged to refuse the unfortunate bank any further assistance in the settlement of the adverse state of its exchanges. The banks, however, intimated that all City Bank notes presented to them in the course of business would be paid. A most wise resolution, which did much to allay the panic. Had they *not* done so, in the then excited state of public feeling, with the extraordinary revelations that from day to day were being made as to the gross mismanagement and fraud which characterised its business, it is hard to say what might have been the result; and other banks, which were thoroughly sound, *might* have been obliged to yield to the extraordinary pressure.

It was a crisis of no ordinary kind: for the disclosures which two weeks after were laid before the public in the report of the Committee of Investigators, were of the most startling nature, and almost beyond belief. So overwhelming indeed were the facts and figures laid bare in the report, that many, not by any means novices in financial matters, failed to grasp the exact position; it has been described as a picture of financial wreck and ruin, as black, as helpless, as hopeless as this country has ever seen since the days of the Darien expedition. "The sum of the whole matter is" (said *The Times* of the 19th October), "that the bank has lost on a moderate and probably favourable estimate £6,200,000, *i.e.*, the whole of the paid-up capital and reserve fund, together with fully £5,000,000 besides. . . . The story set forth in the report is one of the most disgraceful in the history of banking. Accounts have been deliberately falsified, securities entered at fictitious values, bad debts taken as good assets, and the very gold, which ought to have been held under the Act of 1845 against the note issue, deliberately squandered to the extent of over £300,000. The Government has been deceived by false returns, the shareholders by 'cooked' balance-sheets, and everything done, in short, that a perverse ingenuity could think of to conceal the bankrupt condition of the bank, until it became a national calamity. Here is a bank professedly occupied with the commerce of Scotland, throwing away millions of the money of its depositors to support hopelessly rotten firms in the East Indian trade, investing in doubtful or altogether speculative securities, such as Erie shares and other American stocks, buy-

ing land in Australia and New Zealand, and generally behaving like an insane gambler, mad to be rid of his fortune. This, too, is a position into which the managers obviously drifted at first by departing from the ordinary recognised course of banking business. Lending freely on bad security, and bolstering up eager speculators, they had drifted from bad to worse, to the utter ruin of the concern. Then, when courage failed them, they dared not tell the truth.

"It was easier to hide losses in ambiguous balance-sheets, good only for deception; and the first losses were thus hid. Then worse came, and it was necessary to go from one criminal act to another, in order to keep the ever-increasing losses out of sight, until at last the criminality reached the point of paying a splendid dividend, and issuing a balance-sheet, showing that the managers had to abstract the gold held against the notes, in order to keep the concern above water for a few more days."

Such a state of matters was enough to shatter the confidence of the firmest believer in the soundness of the other Scotch banks; and, for a time, there is no denying the fact that a most uneasy feeling was abroad, lest the gigantic mercantile failures involved in the fall of the City Bank should engulf one or another of these. Never, perhaps, was the strength of the Scotch system more severely tried, and never did a system more triumphantly vindicate its soundness. In other times, the discreditable disclosures made would undoubtedly have created general distrust and panic, and a run upon every bank in the country. But, excepting in a few cases here and there, nothing of the kind occurred. And why? The other banks, so far as the public knew, might have been involved in difficulties like the City Bank; but the intelligent public had come to realise and understand this fact, that for every pound of each of their liabilities the shareholders of the Scotch banks were responsible to the last penny; so that the risk to the general public, either as depositors or note-holders, was infinitesimal.

The authorised note issue of the City of Glasgow Bank was £72,921, the actual issue when it stopped was no less than £863,400, or more than *eleven and a half* times greater than its authorised issue; yet, though this was well within the knowledge of the other banks, the result fully justified their confidence, for the unlimited liability of the shareholders was quite equal to meet not only this but every depositor in full.

By the failure of the Western Bank and the City of Glasgow Bank their right of issue lapsed, and has, consequently, as a circulating medium, been lost to the country.

Yet the note circulation has not decreased; on the contrary it is daily increasing with the requirement of the country; and this large increase the existing banks have to supply, although it yields them no profit. The public do not ask for gold, they are satisfied with notes; but the banks have to find and lay past the gold their notes represent. Mr. Rae, Chairman of the North and South Wales Bank, frankly stated that, so much did he consider the people of Scotland wedded to their paper issue, in his opinion "it would be just as difficult to introduce a gold currency into Scotland, as it would be to introduce a one pound note currency into England."

The excess of issue over the sum authorised in 1886 was about three and a half millions, now it is £5,000,000 in excess, for which the Scotch banks are bound to have an equivalent at their head offices in gold, and the practical result of this provision of the Act of 1845, whereby so much gold lies, we might almost say, idle, has on several occasions of panic in London been not to allay but to *intensify* the panic.

In the panics of 1847, 1857, and 1866, money was in demand, and "runs" were made upon the banks both of England and Scotland. In London the demand was for *gold*, but in Scotland the public took, without hesitation, the *notes* of the banks, and to such an extent that, to keep themselves within the Act, £1,500,000 in gold had in 1857 to be got from the Bank of England. The banks did not need the gold, as the public did not ask it. It was merely to lie in their vaults as security, and was returned to London as soon as the crisis was past, and the excess of issue had come back to the bank tills. Under the Act of 1845, therefore, the expansion of the note circulation of the Scotch banks is attended by a corresponding diminution of the Bank of England's circulation; for, as the latter is founded entirely upon *gold*, every pound withdrawn from its supply of bullion necessitates a corresponding withdrawal of *notes* from circulation. Pressure, instead of being relieved, is aggravated and intensified. At the very time an *expansion* of the circulation is required most urgently, the law insists upon a *contraction*.

If anything were required to confirm this statement, it is the fact of the frequent *suspension* of the Bank Act. Unable to bear the strain of the very emergency for which it was created, it is laid aside, and a more liberal circulation permitted. Thus the commercial panics of 1847 and 1857 were tided over by a *suspension* of the Act, passed for the very purpose of *preventing* a panic! In times of panic arising from over-speculation or over-trading, the country banks, English and Scotch, look to London for money. The Bank of England

holds the reserves under a system that, as Mr. Bagehot says, "has grown up," and which he "does not know to be theoretically defensible. But there it is, and we must, I suppose, go on with the banking system into which we were born, because we cannot change it. . . . The Bank of England must hold enough for everybody, or else it and everybody stops." The great influence of the Bank previous to 1844 lay in the power she possessed of *expanding* the circulation. "That power," as Mr. Gilbart truly says, "she surrendered by the Act of 1844. She then became like any other banking concern issuing Bank of England notes. Her locks were shorn. It is the inflexibility of the Act which makes the commercial classes feel the unsoundness of its whole principle. Had a dispensing power been granted, we should merely have fallen back upon the previous system, with the additional disadvantage that the Bank would never be able to adopt a better system even if so disposed. The directors had for several years professed to govern the issue of notes by the foreign exchanges, but departed from that principle according to their discretion. The Act of 1844, by its inflexible enactment, put this principle to the test of experiment. The principle could not bear the test, and hence the Act was suspended."—(Gilbart, p. 244.)

So long as the currency of the country rests on no broader basis than the importations and exportations of bullion, public confidence will continue to fluctuate accordingly; unnecessary fears will be fostered, and panics will be of periodical occurrence. At present, it is thought that too much responsibility rests upon the Bank of England. Its circulation is, no doubt, amply secured, and its resources are equal to any emergency; but as these have been seen to be not always sufficient to establish confidence (especially in the Provinces) when most needed: and the extended and ever-increasing requirements of trade are only met by an expensive and inconvenient currency, Parliament might well consider the propriety of relieving the Bank of England of some of this responsibility. That the entire reserves of the country should be held by one bank, however strong it be, is an anomaly which exists, but which is, we venture to say, only justified by the long standing of the practice, the good management of the bank, and the supposed danger of instituting changes in the monetary machinery of the country.

A glance at Table I. (Appendix to Blue Book of 1875, page 485), referring to exports and imports of the United Kingdom, abundantly shows that what may have been sufficient for the requirements of trade in 1844 must, in the absence of any power of expansion in the currency laws of that year, be

quite inadequate for the requirements of the present day.

| | | | | | |
|---|---|---|---|---|---|
| In 1844 the declared value of the | | | | imports was | £85,000,000 |
| ,, | ,, | ,, | ,, | exports ,, | 59,000,000 |
| | | | | Total | £144,000,000 |
| In 1873 | ,, | ,, | ,, | imports was | £370,000,000 |
| ,, | ,, | ,, | ,, | exports ,, | 255,000,000 |
| | | | | Total | £625,000,000 |
| In 1883 | ,, | ,, | ,, | imports was | £426,900,000 |
| ,, | ,, | ,, | ,, | exports ,, | 305,437,000 |
| | | | | Total | £732,337,000 |
| In 1898 | ,, | ,, | ,, | imports was | £470,378,583 |
| ,, | ,, | ,, | ,, | exports ,, | 294,913,988 |
| | | | | Total | £765,292,571 |
| In 1911 | ,, | ,, | ,, | imports was | £680,559,000 |
| ,, | ,, | ,, | ,, | exports ,, | 454,282,000 |
| | | | | *Re* exports | £102,721,000 |

Thus we have within sixty-seven years a remarkable increase in the trade and commerce of the kingdom of *ten hundred and ninety-three millions.* This large increase in our trade must of necessity require a proportional increase in the medium of exchange. But, strange to say, this has not followed; for while the business of the country has been wonderfully extended, the medium by which that business is conducted has remained almost stationary, at least, so far as paper money is concerned. Other means have had to be resorted to, to fill the void, otherwise the commercial machinery of the country must have long since been brought to a deadlock. It appears that from 1844 till 1884 there was an increase in Bank of England notes and Scotch issues to the extent of six millions in the former and three millions in the latter. Irish bank issues were scarcely *one* million up, but there was a *decrease* in notes issued by the Private and Joint-Stock banks of England, of about four millions, so that the total increase of paper currency in the United Kingdom in forty years had only been about six millions sterling.

Turning to the table of British Gold Coinage at page 547 of the Blue Book, we there find a statement of sovereigns and half-sovereigns issued from the Mint since 1817. It appears that the total gold coined in London and in the branch establishments in Australia down to 1875, was £251,762,000. It is estimated that of this amount fully £151,762,000 may be deducted as withdrawn from circulation arising from loss by fire

and shipwreck, wear and tear of the coin, what is used in arts and manufactures, or converted into bullion, leaving something like £100,000,000 in circulation. It is estimated that now the metallic circulation amounts to 110 millions in gold, and thirteen millions in silver and bronze.

This must, of course, be a mere approximation; it may be more or less; and several good authorities, while admitting its general accuracy, differed as to the amount. Mr. Palgrave estimated the amount of the gold coinage in circulation in 1844 at £36,000,000, so that if he is correct there has been an increase since that year of £74,000,000. But as sovereigns are mostly useful for transactions involving small amounts, we can easily understand that with an increased population in the United Kingdom within the same period (from twenty-seven millions in 1844 to thirty-three and a half millions in 1874, and now further augmented to forty-five and a half millions), this addition to the currency of the country, large though it may appear, is fully swallowed up in the requirements of its ordinary hand-to-hand transactions.

How then have the exigencies of this largely increased commerce been supplied? We answer, the lack of a sufficient currency has been greatly obviated by recourse in the settlement of transactions, both great and small, to a paper currency of cheques. The system is not new, but of late years it has been enormously developed, and has been found a most valuable auxiliary in the settlement of monetary transactions.

Thus, suppose two parties having current accounts in the same bank have business with one another; the debtor gives the creditor a cheque on his account, which the latter sends to the bank to be placed to his credit: the transaction is settled by a mere transfer in the bank's books without the intervention of money at all, either in notes or coin. If the parties keep their accounts in different banks the principle is the same, the only distinction being that it involves a transfer from one bank to another, not of money, but of debt. These transfers of debts are, by an admirable system of exchange between the banks, effected at the "Clearing House." The London Clearing House, established in 1775, embraced only a limited number of the banks for many years, but gradually, as business increased and the City extended itself, the risk, expense, and loss of time entailed to each bank in sending round their cheques, have led to nearly all the banks in London being admitted to its advantages. "Up to 1854, settlement of the balances at the Clearing House was made by the payment of Bank of England notes; but in that year a further economy was effected through settlement by a transfer from one banker's account to another

at the Bank of England, where all London bankers keep their balances. Previous to this improvement the bankers had to keep a stock of cash in their tills to meet their clearing, which now augments the circulation to the advantage of the country generally, and no less to the profit of the Threadneedle Street establishment."—(Gilbart, p. 455.)

It is said that the London Clearing House had its origin in an early practice of the Edinburgh banks; but if this is so the practice had for many years fallen into disuse in Scotland, for the present arrangement of a daily clearing in the cities of Edinburgh and Glasgow, and such towns as Dundee, Leith and Greenock, dates back only to 1859.

Referring meantime to the London Clearing House, we have the authority of Sir John Lubbock, now Lord Avebury, for saying, that the amounts passed through that establishment on the 4th day of each month, "form the best indication of the internal trade of the country. *That* does not, of course, *all* pass through the Clearing House; but, granting that something must be allowed for the additional number of banks admitted to its privileges of late years, a comparison of the annual amount shows a most extraordinary increase of the transactions of the country settled by this means. Thus, in 1844, the amount of cheques, bills, drafts, &c., was fifteen hundred millions, while in 1872-73 and '74 the total amount averaged six thousand one hundred and sixty millions of pounds, being an increase during these thirty years of nearly 400 per cent.! A sum which has since steadily risen to fourteen thousand six hundred and fifty-eight millions of pounds in 1910."

The enormous saving of circulating medium, in notes and coin, involved in these figures, is certainly a great advantage to the commercial community. It must be obvious to every one that the process is more convenient, and less liable to risk of loss, than the passing of gold or notes from hand to hand, especially in large transactions.

Then again, in regard to the note circulation, there has of late years been some economy in minimising the actual output of the banks. This is specially so in Scotland, where a much larger circulation is demanded by the public than is allowed under the Act of 1845. Large as the excess of issue in Scotland is, it would be much larger but for the very complete system of exchanges now in force. As a rule, bank notes remain in circulation a very short time. Hoarding is now very rare (though even now we know of old ladies who will carefully hoard *bank notes*, but will not trust a bank with a deposit!). As a rule, if a man gets payment of an account in bank notes,

he at once takes the notes and lodges them in the bank where his account is kept. Thus the issues of one bank very quickly get into the tills of other banks, and it so happens that each bank in the course of a week will hold a considerable stock of the notes of other banks, which they find it mutually advantageous to exchange frequently.

The exchange of notes in Edinburgh and Glasgow used to be *twice* a-week, and in the country towns where there were two or more branch banks, *once* a-week; but for many years the exchange of notes all over the country has been *daily*. The result of this is to curtail to some extent each bank's issues. By the old method of a *weekly* exchange, the notes of one bank might be lying from Monday morning till Friday evening in the hands of another bank, and as all the notes of each bank in the hands of other banks *after* the exchange on Saturday morning were counted in the return (required to be made to Government) as notes *in circulation*, to that extent each bank was paying for an excess of issue which did not actually exist. But by the daily exchanges the total circulation of the Scotch banks as given in the weekly return is reduced by about £1,000,000. This, of course, involves a considerable amount of additional trouble and expense to the banks, which, but for the stringent nature of the Act, would not be entailed. We have already seen that in the case of the English Provincial Banks the effect of the Act has been even more detrimental to the expansion of their note circulation. Many of the country banks in England, both Private and Joint-Stock, have given up the right of issue rather than retain it with the restrictions imposed; some have stopped payment, and their issues have lapsed, and not a few have amalgamated with other banks to form stronger institutions. Thus, out of a total circulation of eight millions in 1844, no less than one-fourth, or £2,125,488, had lapsed in 1874, and at the present time this has been further reduced, the total circulation of the English Provincial Banks only amounting in 1911 to £160,756. (*See* page 64.)

It is evident then that the expansion of the currency of the country has not kept pace with the extension of its commerce. The banks and the public have been forced to adopt other means of facilitating business. The banks, unable to resist the demand for their notes, are forced to measures to restrain their circulation in spite of that demand, while the public, finding cheques a convenient medium, have largely availed themselves of this form of paying accounts, with the result that now the great bulk of the monetary transactions of the country are settled by transfers from one banker's books to another without the intervention of either coin or notes. There is no doubt

that this is in many ways a great advantage. In the case of cheques there is no restriction, and they answer their purpose admirably; what we complain of is that the issue of bank notes is surrounded with restrictions that unnecessarily limit the extent of their usefulness. The one is issued on the unsupported credit of the issuer, while the bank note issued on the credit of a large united partnership is subjected to the suspicion involved in Government supervision; the only real test of their worthiness being the willingness of the public to accept them in payment of "value received."

Be this as it may, of this fact there is no doubt, that the Scotch banks and the Scotch people are placed in a much better position in this respect than the people and banks of England. In the case of the latter, the limit is fixed and absolute, and is consequently not increasing in proportion to increasing trade and population. In Scotland, although it is fixed and limited, the limitation is not absolute, but, as we have seen, may be expanded indefinitely, provided the necessary security in the form of gold is in the safes of the bank. It may not directly be so profitable for a Scotch bank to issue notes largely beyond its authorised issue, but it is important to note that each bank holds in its *unissued* notes a great reserve power. The notes held by the public, out of the possession of the bank, constitute for the time being its issue; but in addition to this, the bank and its branches hold a large number in the tills ready for further issue, and which stand largely in room of cash. By this means many branches in Scotland are kept open, and are a means of inducing habits of industry and thrift in comparatively poor localities at small cost and with a small supply of gold, which in England would not be possible. As Mr. Dun told the Committee, "it is the power of *unissued,* but *issuable* notes, which is the magic power of circulation."

Banking in England and banking in Scotland are thus on a very different footing. The Scottish system is built upon the foundation of a comparatively free note circulation, and the One Pound Note is, without doubt, the key-stone of the edifice. By it the Scotch banks have been reared and upheld. It is now, and most likely ever will be, held an integral feature of our currency and banking system. A new bank started in Scotland that did not issue notes would be looked upon by the common people as no bank at all; and as for abolishing the right of the present existing banks to do so, it would not for a moment be tolerated; for, as it was stated by a very competent judge, "you can no more abolish one pound notes in Scotland than you can abolish the Presbyterian religion."

We have attempted to show the advantages to be gained,

and which have been gained in the past, by the system in force in Scotland, as compared with the disadvantages under which the people of England have so long laboured. In some respects, however, such a comparison must be inequitable when the great difference in the population of the two countries is taken into account, and the great variety of banks working upon different principles which we find in England. In the one country we find uniformity and concentration; in the other, endless variety, with a tendency to localisation. Here a system whose comparative freedom admits of unlimited competition; there, a variety of systems, fettered and bound by State restrictions, the growth of various periods of an altogether illiberal legislation.

Any attempt to assimilate Scottish banking to that of England we cannot look at in any other light than as a mistake. The Scotch banks and the people of Scotland do not desire it, and it has not been proved to have had any beneficial effect in giving security or in averting panics. Scotland has frequently given beneficial laws to England, and in any assimilation of the laws and customs of the two countries care should be taken that the better is not displaced by the worse. Now, in regard to our banking institutions, we have the best evidence that those of Scotland have long been recognised as holding a foremost place. Sir Robert Peel himself, in 1845, admitted that "the Scotch system is preferable to that which prevails in England;" and Mr. Bagehot, in 1875, said, "it is the best system, in many respects, that the world has seen."

We know that Sir Robert Peel's intention in 1844 was *ultimately* to supersede the bank issues by a State issue of notes. In England, it seems as if this may yet be the result of the restrictions on private issues and the Bank of England monopoly; but with the strong tendency to expansion which we find in Scotland, would Parliament now be justified in further crippling the Scotch system? We think not. Nay, further, we hold that if there is to be any assimilation, it should rather be in the direction of adopting that which is best in the latter system.

On this point, however, there is a great diversity of opinion, and no doubt there are very great, and it may be, insuperable difficulties in the way of the adaptability of Scotch institutions to the requirements of Englishmen. The first and most serious difficulty is with the Bank of England monopoly. In Scotland there is nothing at all like it. There is no doubt it has very largely hindered the development of banking throughout the country, as we may gather from the opinion of many English bankers of eminence. The adoption of the one pound note

and more freedom of issues, are also points upon which some of these have spoken out very plainly. Let a few quotations from one or two of them suffice. Mr. Dun, manager of Parr's Banking Company, in his evidence said—"I am very sorry that One Pound Notes do not exist in England. I venture to think they were discontinued in England through misapprehension; but, at present, I should not be prepared to recommend that so decided a step as their re-introduction should be taken. . . . I am not without hope that the day may yet come when, with a proper development of bank note issues in England, the great economical advantage which undoubtedly results from the use of the One Pound Note, may be given to England with a proper increase to the ultimate bullion reserve of the country. But, at *present*, I should consider it a somewhat hazardous experiment."

Mr. Palgrave, while opposed to the introduction of one pound notes into England, from "apprehension of liability to forgery," and "the idea, that the economy of the precious metals secured by their circulation would be dearly bought, by weakening the total amount of gold in the country, upon which the aggregate circulation rests," had no hesitation in saying that "the privilege of issue which the Scotch banks have, enabling them to establish branches, is without any question a benefit to the public of Scotland, and to its commerce." Following this up, he further said, in reference to the English bank issues—"If the law of the country had permitted the circulation to adjust itself to the wants of the country more completely than it appears to me to have done, to that extent the public would have benefited. . . . I think the law might be altered with some advantage."

Then we find Mr. Bagehot saying, "It is the duty of the State in the first instance to make its laws, so that producers are on an equality." But, "any change in the currency of the country is a matter of great delicacy," and should be made "with great caution. . . . Unless," he said, "the One Pound Note were secured, it would be very mischievous in England, because our poor people are not at all accustomed to a note issue, and in time of peace they would immediately run to the bank for gold. If the notes were secured, in *course* of *time* it would work well, but at first, I own, I should have a doubt about it." Again, "Sudden changes of course are always dangerous, but when once the thing had righted itself, there would be no danger whatever." Our poor people would immediately *run to the bank!* Why, is not that the very excellence of the One Pound Note issue in Scotland, that our "poor people" are led, through their having bank notes, to run to the bank, not for gold but to deposit them! Hoarding either of notes or gold is almost unknown; whereas in England it would appear to be

very common, simply because the "poor people" have little or no inducement to "run to the banks." Mr. Bagehot, when he made this statement, seemed to have forgotten that other statement to which we have already referred, that "the system of deposits gradually grows out of a note issue."

Turning to Mr. Gordon, manager of the Cumberland Union Bank, we find him stating—"It has been the work of two centuries, to consolidate the system in Scotland, and I cannot but think that it will take not two centuries in England, but certainly a long time to accustom the people of England to the One Pound Notes, in the same manner as the people of Scotland have become accustomed to them. . . . As a banker," he said, "I should be very glad to have the privilege of issuing One Pound Notes, but I believe it would be disastrous to the country." Well, you cannot have any new thing without a beginning. If a beneficial reform is found to be necessary, it must be instituted somewhere and sometime.

The introduction of power looms, steam-engines, and machinery of all kinds into our workshops and factories, has not proved in the long-run to be "disastrous to the country," though their *first* introduction was the immediate cause of very wide-spread misery and destitution among those whose manual labour they supplanted.

It is surely saying very little for the commercial intelligence of the people of England, to suppose that the introduction there of a One Pound Note currency or of a system of banking which has been practised in Scotland for two hundred years would be "disastrous." The idea of an institution in the one country proving itself a blessing and a means of prosperity; and in the sister kingdom, with only "the Silver Tweed" between, turning out "disastrous to the country," is too absurd to be seriously considered.

The currency principle upon which English banking is based has been tried and has failed. "It seems now," said Mr. Gilbart a good many years ago, "time to try the antagonistic principle, that the amount of the domestic currency should be wholly unaffected by the importations and exportations of bullion, for," said he, "notwithstanding all the denunciations we have heard upon the subject, it may, perhaps, be ultimately found that the principle of *competing issues*, as practised in Scotland, is the *only effective principle* by which the currency throughout the United Kingdom can be managed."

What we contend for is, that restrictions and prohibitions upon free trade in banking, which are inconsistent with commercial progress and prosperity, and which unfortunately have not unfrequently proved "disastrous" in England—in the

frequent failure of *weak* because *small* banks—should be removed. "Gradually" and cautiously it may be done, and we hope without "disaster"! If the English public do not wish bank notes, whether they be £10 Notes or One Pound Notes, there is an end of the matter; it must arise in great measure from want of confidence in those by whom they may be issued.

Public confidence can only be retained by strong credit, and the currency of the country, if it is efficiently to serve its purpose, must, like Cæsar's wife, be beyond suspicion.

In a State currency, or a currency authorised and guaranteed by the State, some people think this security can only be found. There are certain things which a Government may safely do in the interests of the country, which could not be so well done by private enterprise; and the coining of money is one of them. Anyone is entitled to issue as much gold coin as he may please, the only thing the State reserves to itself is the right of coining it, so as to ensure its being of a certain weight and fineness, in order that the public may be protected from fraud. In the matter of "promises to pay" or cheques issued by private individuals, the State does not interfere. So long as the public are willing to take such promises, they may be issued to any extent by a debtor to his creditors for cash. With their payment or non-payment when demanded, will continue or terminate their currency, that is, being taken for that which they represent; and so, with reference to bank notes, which are promises to pay on demand, the only possible duty of the State is to take measures that those who issue them shall fulfil their promise of payment on demand.

This duty we think the State may best perform, as it does many other duties, by letting things alone; by allowing the responsibility of the issues to rest on the practically unlimited liability of the issuers, and where that responsibility has always been discharged by our Scotch Banks. Experience is against the State itself issuing a *paper* currency, as it is against a monopoly of this privilege by any one bank, but is all in favour of the opinion that a modification of the Bank of England monopoly, and an extension of the right to issue notes, would be beneficial to the country and profitable to the banks.

In Scotland, the banking system has been built up on the foundation of broad, free issues. The One Pound Note as a public convenience has brought the banks and the people together in such a way that, as great National Institutions, their power, wealth and prosperity are identified with the power, wealth and prosperity of the nation. By its instrumentality the small savings of the peasant have been applied through the banks to the development of commerce and manufactures

whose fame is world-wide. Occasionally, as in the case of the Western Bank and the City of Glasgow Bank, these have been wretchedly misapplied, but of this there can be no doubt, that by means of our banking system the encouragement and assistance the Banks have been enabled to give, have enormously increased the wealth and influence of the country. By their means the Lothians have been fertilised, and the land of Ayrshire has been improved. The manufactures of Glasgow, Paisley, and Dundee, and the steamships of the Clyde, have all been the offspring of credit judiciously yet liberally extended by the Scotch Banks.

## NOTE EXCHANGE AND CLEARING HOUSE

The foregoing historical account of the One Pound Note as an important element in the circulating media of Scotland may be fitly followed with a short explanation of the methods adopted by the Banks to ensure efficiency with economy in the distribution of their paper money. The Act of 1845, as we have shown, placed a fixed limit to the issue of Bank Notes upon the then existing Banks, and practically a prohibition upon any new bank that might afterwards be established, and so stopping any expansion of paper currency that might be required to meet the growing internal trade of the country. While Parliamentary legislation thus placed limits on monetary necessity, the Banks have ever since found themselves compelled to follow the demand, at the risk of breaking the law,—a risk, however, that is mitigated by the provision that any excess of circulation is legal, provided the equivalent in the form of gold is in the hands of the issuing bank.

While the authorised limit has, therefore, since 1845 remained a fixed quantity, the actual circulation has gone up enormously, and now stands at over seven millions, or fully four and a half millions in excess. The authorised issue in 1845 was £2,676,350, in December 1911 it was £7,200,000. This large sum is required by our ever increasing commerce, and the Scottish Banks have all along met the demand of their customers for the paper currency in preference to gold, even although, as it has been shown, it is not the source of profit it once was. Against this large excess of issue the Government's regulation for a corresponding supply of bullion in their coffers, pound for pound for every note in excess of

the authorised limit, practically amounts to the lock up of so much cash, bringing in no corresponding return, while the expense entailed in printing, engraving, etc., is an additional item of loss.

In order, therefore, to limit as far as possible the issue of notes to the actual requirements of the trade of the country as expressed by the demands of their customers, the Banks adopted a system of exchanges whereby this might be brought about.

In Scotland a Note Exchange was begun in 1752 by the two then existing Banks—the Bank of Scotland and the Royal Bank. The British Linen Company, at that time more a Linen Company than a bank, was also issuing "promises to pay," and their notes were retired by the Royal Bank. The other Scottish Banks subsequently established were, in course of time, and sometimes not without much jealous reluctance, admitted to the benefits and conveniences of the Note Exchange, and now it is recognised as an established and necessary feature of the system of the Scottish Bank Note Issue. The frequently recurring Exchange between the Banks, not only at their head offices but at all their branches in every town where there happen to be more than one bank, has had a wonderful effect in keeping down the circulation of their notes to the lowest possible point.

A further development of the Note Exchange is the Clearing House. The institution of the latter, in Scotland at least, came many years after.

The first Clearing House for the Mutual Exchange of cheques, bills, drafts, etc., was established by some of the London bankers in 1775, the idea having apparently been adopted from the practice of the Continental merchants in the settlement of their transactions at the great fairs, such as Lubeck and Lyons.

It was not, however, till 1856 that the Scottish Banks found it necessary to adopt the system, and even yet it is only in Edinburgh, Glasgow, and other large centres that it is required. In most of the Provincial towns, cheques, bills, etc., are presented to the Bank upon which they are drawn, or made payable, by messengers. Glasgow had the honour of taking the lead in this matter—the Glasgow Clearing House being established in 1856. Edinburgh followed in 1860, and since then Aberdeen, Dundee, Leith, Paisley, Greenock, Perth, and Inverness have adopted the arrangement. The Clearing House is a still further means of restricting the use of notes, for it entirely dispenses in its settlements with the use of cash, either in notes or coin. Without it every bank would be

required to lock up much of its resources in order to pay its cheques on presentation. If paid in their Bank Notes, to that extent their Bank Note Issue would be expanded enormously with a corresponding increase in the amount of gold required to be held in their vaults.

But for the Clearing House, many millions of money are usefully employed, which would be circulating unproductively in the settlement of bank accounts.

The Rules of the Note Exchange and the Clearing House govern the whole note and cheque circulation of the country, and a knowledge of these is the best method of arriving at an understanding of our banking system. We accordingly give the Edinburgh Rules in full, there being no material difference in those of Glasgow, Aberdeen, Dundee, etc. It may, however, be mentioned that in country towns where there are two or more banks, the same general rules prevail. An Exchange takes place each morning (before the commencement of business), except Monday, and an afternoon Exchange on Saturday, at which all notes are passed—not large ones merely as in Edinburgh—settlement of all differences above £100 are adjusted by local Exchange vouchers, which are summed in with the following day's Exchange. At the Exchange on Saturday afternoon all differences, irrespective of amount, are cleared off by a draft on the Bank's office in Edinburgh.

In this way all the Banks at the close of the week, when by the Act they are obliged to make a return to Government of their notes and coin on hand, show what amount of their notes are in the hands of the public, and what amount of gold each bank holds against the excess of issue over the authorised limit. These are published every four weeks by the Registrar of Bank Returns, and a specimen copy of his Certificate—that for the four weeks ending Saturday, the 6th January 1912—will be found in the Appendix, at page 72.

# RULES TO BE OBSERVED

AT THE

## EXCHANGES OF NOTES AND GENERAL SETTLEMENTS OF BALANCES BETWEEN THE BANKS IN EDINBURGH.

I. There shall be Exchanges of Notes, and General Settlements of these Exchanges, and of the Clearing House, as follows:—

| Exchange of Notes. | General Settlement of Exchanges and Clearing. | | |
|---|---|---|---|
| | On | To include. | |
| | | Notes. | Clearings. |
| Daily, except Monday, at 10 A.M. | Monday at 2 P.M. | The Notes of Thursday and Friday, and the large Notes of Saturday; also the Glasgow and Country Exchanges of Saturday. | Friday, Saturday and Monday. |
| Also on Saturday, at 1 P.M., for large Notes only. | | | |
| | Thursday at 2 P.M. | The Small Notes of Saturday, the Notes of Monday, Tuesday and Wednesday; also the Country Exchanges of Wednesday, and the Leith Settlements of Thursday morning. | Tuesday, Wednesday and Thursday. |

The General Settlements shall be made by the Clearing Clerks.

II. When Monday is a holiday, the General Settlement shall be made on Tuesday, but there shall be no Exchange of Notes on that day; when Thursday is a holiday, the General Settlement shall be made on Friday; when Saturday is a holiday, there shall be an Exchange on Friday afternoon.

When the Term Day falls on a Saturday, the Exchange shall meet in the afternoon, at such hour as may be agreed upon.

III. The Clerks shall be in attendance punctually at the hours stated,

*fifteen minutes* after which the doors are to be closed, and the Notes in the hands of the Banks not represented excluded until next Exchange. Such Banks shall, however, retire, in accordance with Rule VII., the Notes brought into the Exchange against them by other Banks.

IV. Each Bank shall be represented by at least two Clerks. On arriving at the Exchange Room, one of the Clerks shall deliver the Notes, and the other Clerk shall remain in the box to receive the Notes from the other Banks. Unless there is a Clerk to receive them, on no account shall any Notes be passed through the wickets. No one shall enter the box of another Bank,—the door must be kept locked.

V. The Clerks from each Bank shall *all* remain in the Exchange Room until the whole of the Notes received by them have been counted, and at least one Clerk from each Bank shall remain until the whôle of the Notes delivered by that Bank have been counted. The Notes received from any one Bank shall not be mixed with those received from the other Banks, until they have been found to agree with the specification received along with them. In case of a dispute arising on any occasion as to the amount contained in any parcel of Notes, received or delivered by a Bank which has infringed the Rules in this clause, such Bank shall, in the absence of conclusive evidence in its favour, be held to be in the wrong.

To prevent any undue delay in counting the Notes, each of the Banks shall provide a competent Staff for that purpose, to the satisfaction of the Settling Bank of the day.

VI. The Settlements shall be undertaken each alternate month by the Bank of Scotland, and by the Royal Bank of Scotland ; but neither Bank shall be held to incur any responsibility in respect of these transactions.

On Monday and Thursday the Balances shall be included in the General Settlement of the Exchange and Clearing. On Tuesday, Wednesday, Friday, and Saturday morning, unless when a General Settlement falls on any of these days, the Exchange Balances shall be combined with the General Balance of the Clearing of the same day. On Saturday afternoon the Settling Bank shall grant and receive Vouchers for the Balances, which shall be carried into the next day's Clearing, and shall bear interest at Current Deposit Receipt Rate.

VII. When the Balances of the General Settlement have been struck, the Settling Clerk of the day shall at once enter the particulars in a Record provided for that purpose, and the Banks who are Debtors in the Settlement shall, on the same day, before the close of business, send to the Banks who are Creditors, letters intimating that in four days thereafter the respective amounts due will be transferred to their credit in London. The Debtor Banks shall, on the Settling Day, include in the Settlement Letters, four days' interest on the amounts, at the Current Deposit Receipt Rate. In the event of the fourth day after the Settling Day being a Bank Holiday in London, the payment of the Balances shall be postponed until the first business day thereafter, and additional interest shall be paid for the day or days so added.

VIII. In the event of the amount of any Transfer by advice not being duly paid in London, without prompt and satisfactory explanation of the cause, the Bank issuing such intimation of Transfer shall be immediately excluded from the Exchange Room and Clearing House.

IX. When Exchanges are established in Provincial Towns, the Exchangeable Notes received at the Agencies must be exchanged there ; and must under no pretext be forwarded to meet the Exchanges in Edinburgh, or at the other Agencies.

X. It is further understood and agreed, in consideration of the circulation of each Bank (other than what may be issued against Gold and

Silver coin), being fixed and limited by the Act 8 and 9 Vict., cap. 38, that the Banks shall bring to the Exchange Room regularly, at their Head Offices and Agencies, all the Exchangeable Notes which they receive; and that under no circumstances shall any of the subscribing Banks issue the Notes of another Bank of Issue in Scotland, without permission first asked and obtained.

XI. The Record of the General Settlements shall be open for the inspection of any of the subscribing Banks at such times as may be convenient.

XII. Any of the Parties to this agreement shall be entitled to withdraw from it on giving Three Months' Notice.

## RULES OF THE EDINBURGH CLEARING HOUSE

I. The Clearing House shall be opened on every business day, except Saturdays and Local Holidays, at 1 P.M.; on Saturdays it shall be opened at 11 A.M.; and on Local Holidays it shall be opened at 10 A.M. The Clearing House shall be closed 15 minutes after the hour of opening. There shall be additional Clearings at the Terms of Whitsunday and Martinmas, as may be arranged by the Banks.

II. Each Bank shall be represented at the Clearing House by a competent Clerk, who shall deliver and receive the documents referable to his Bank. He shall be furnished with a set of books for the various Banks, in which the documents delivered by him shall be entered, summed, and tested before he goes to the Clearing House, and he shall hand to each of the other Banks a duplicate list along with the Documents delivered. He shall also be furnished with a book in which he shall strike the Balances, and he shall not leave the Clearing House until the General Balance has been completed.

III. Demand Documents payable at the Banks in Edinburgh, Bills domiciled with the Chief Offices of the Banks in Edinburgh, and Documents payable elsewhere in Scotland where the Clearing Bank has not a Branch or Correspondent, may be passed through the Clearing House.

IV. It shall be in the option of each Bank to send, by post to the places where they are payable, or, in the case of Edinburgh Offices, by post or Messenger, direct to the Offices where they are payable, such documents as are clearable under Rule III., and to obtain payment therefor by means of Debit Vouchers to be cleared in their place. Such Documents may, except on Local Holidays, be delivered by Messenger between Chief Offices in closed packets, accompanied by a list of the enclosures, not later than 10 A.M. on ordinary days, and 9.30 A.M. on Saturdays. When Documents are presented by a Messenger, otherwise than in a closed packet, a Debit Voucher therefor shall at the same time be presented, which, if the Documents are duly honoured, shall be signed by the Receiving Bank, and returned by the Messenger.

V. Each Document shall be sufficiently discharged before being cleared or remitted, and shall distinctly bear the name of the Bank and Office from which it proceeds. Documents passed through the Clearing House shall also bear a Clearing House Stamp, with the name of the Clearing Bank and the date of Clearing.

The Banks agree to dispense with the discharge of Exchange Vouchers passed through the Clearing House.

VI. Documents payable at Branches within the Municipal Boundary of the City, passed through the Clearing House, shall be presented on the day of Clearing. Demand Documents payable at Country Branches shall be forwarded on the day of Clearing.

VII. Documents payable at a Chief Office, which have been passed through the Clearing House, and are not duly honoured, shall be returned on the day of Clearing by Messenger to the Office by which they were cleared, not later than 3 P.M. on days other than Saturdays and Local Holidays, 12.30 P.M. on Saturdays, and 11.15 A.M. on Local Holidays. Documents delivered at a Chief Office in closed packets under Rule IV. shall be returned, if dishonoured, not later than through the first Clearing thereafter.

Cheques payable at a Branch and not duly honoured, shall be returned by first post after dishonour, or by other means involving no greater delay, direct to the Offices at which they were cashed. Bills and Cash Orders unpaid shall also be returned direct. Documents cleared or remitted by the Banks on account of their Correspondents shall be returned direct, whether slips so instructing are attached to them or not.

All Documents returned unpaid shall have an answer appended, stating the cause of dishonour, and repayment shall be effected by means of Debit Vouchers to be passed through the Clearing House.

VIII. The Bank of Scotland and the Royal Bank of Scotland agree to undertake the Settlement of the Clearings for each alternate month. On Mondays and Thursdays the Balances shall be included in the General Settlement of the Exchange and Clearing; on other days the Settling Bank shall receive from those Banks which are *Debtors* on the Clearing Settlement (with which shall be included the Balance of the Exchange), and shall give to those which are *Creditors*, Exchange Vouchers for the respective balances within one hour after the striking of the Clearing balances. These Vouchers shall be brought into the next Clearing, and shall bear interest from the date of issue till the date of that Clearing, at the Deposit Receipt Rate current on the day of Settlement, the interest being included in the Voucher given for the balance.

The Rules for conducting the General Settlement of the Exchange and Clearing are laid down separately.

Neither the Bank of Scotland nor the Royal Bank of Scotland shall incur any responsibility whatever in respect of these transactions.

IX. All expenses connected with the Clearing House shall be borne by the Banks in equal proportions, and shall be paid by them half-yearly.

# NOTE CIRCULATION OF THE UNITED KINGDOM.

## Four Weeks to 3rd August, 1912.

| | Authorised. | Actual. | Excess. | Decrease. |
|---|---|---|---|---|
| **England—** | | | | |
| Bank of England | £18,450,000 | £29,686,930 | £11,236,930 | — |
| 9 Private Banks | 372,134 | 72,256 | — | £299,878 |
| 7 Joint-Stock Banks | 245,731 | 79,899 | — | 165,832 |
| | £19,067,865 | £29,839,085 | | |
| **Scotland—** | | | | |
| 8 Joint-Stock Banks | £2,676,350 | £7,618,183 | £4,941,833 | — |
| **Ireland—** | | | | |
| 6 Joint-Stock Banks | £6,354,494 | £7,304,549 | £950,055 | — |
| TOTALS | £28,098,709 | £44,761,817 | £17,128,818 | £465,710 |

# APPENDIX.

## TABLES SHOWING THE POSITION OF THE SCOTCH BANKS,

as at FEBRUARY, 1885, DECEMBER, 1900, and DECEMBER, 1911.

# TABLE SHOWING THE POSITION OF

## LIABILITIES.

| Banks. | | Subscribed Capital. | Paid-up Capital. | Reserve Fund. | Undivided Profits. | | |
|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | s. | d. |
| ank of Scotland | 29 Feb., '84 | 1,875,000 | 1,250,000 | 775,000 | 109,889 | 0 | 7 |
| oyal Bank | 11 Oct., '84 | 2,000,000 | 2,000,000 | 757,891 0/2 | 100,000 | 0 | 0 |
| itish Linen Company | 15 April,'84 | 1,000,000 | 1,000,000 | 750,000 | 103,170 | 4 | 1 |
| mmercial Bank | 31 Oct., '84 | 5,000,000 | 1,000,000 | 550,000 | 78,973 | 4 | 11 |
| ational Bank | 1 Nov., '84 | 5,000,000 | 1,000,000 | 660,000 | 183,445 | 19 | 10 |
| nion Bank | 2 April '84 | 5,000,000 | 1,000,000 | 370,000 | 157,254 | 8 | 6 |
| ydesdale Bank | 31 Dec., '84 | 5,000,000 | 1,000,000 | 560,000 | 141,780 | 7 | 4 |
| wn and County Bank | 31 Jan., '85 | 1,260,000 | 252,000 | 126,000 | 18,120 | 17 | 2 |
| orth of Scotland Bank | 30 Sept., '84 | 2,000,000 | 400,000 | 213,000 | 32,250 | 13 | 2 |
| ledonian Bank | 30 June, '84 | 750,000 | 150,000 | 53,000 | 9,622 | 11 | 0 |
| | | 28,885,000 | 9,052,000 | 4,814,891 0/2 | 934,507 | 6 | 7 |

## ASSETS.

| Banks. | Gold and Silver Coin and Notes of other Banks. | | | Government Securities, Short Loans, &c. | | |
|---|---|---|---|---|---|---|
| | £ | s. | d. | £ | s. | d. |
| Bank of Scotland | 1,204,207 | 19 | 7 | 4,631,202 | 2 | 3 |
| Royal Bank | 1,043,759 | 17 | 7 | 4,325,092 | 0 | 5 |
| British Linen Company | 1,741,197 | 7 | 5 | 1,996,486 | 19 | 5 |
| Commercial Bank | 2,795,197 | 5 | 8 | 2,524,924 | 5 | 6 |
| National Bank | 1,231,237 | 12 | 9 | 5,500,603 | 5 | 7 |
| Union Bank | 835,785 | 18 | 7 | 4,166,219 | 1 | 8 |
| Clydesdale Bank | 1,280,070 | 4 | 7 | 2,730,301 | 2 | 0 |
| Town and County Bank | 178,773 | 1 | 6 | 1,320,977 | 16 | 3 |
| North of Scotland Bank | 274,558 | 16 | 7 | 675,607 | 19 | 9 |
| Caledonian Bank | 86,969 | 18 | 6 | 196,229 | 14 | 7 |
| | 10,671,758 | 2 | 9 | 28,067,644 | 7 | 5 |

# THE SCOTCH BANKS, AS AT FEB., 1885.

## LIABILITIES.

| Note Circulation. | | | Drafts at Short Dates. | | | Acceptances. | | | Deposits. | | | TOTAL. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. | £ | s. | d. |
| 761,148 | 0 | 0 | 193,895 | 6 | 2 | 971,553 | 4 | 0 | 13,254,474 | 19 | 7 | 17,315,960 | 10 | 4 |
| 787,597 | 0 | 0 | 203,263 | 1 | 8 | 274,972 | 5 | 4 | 12,162,035 | 14 | 7 | 16,285,759 | 1 | 9 |
| 673,237 | 0 | 0 | 115,111 | 14 | 3 | 131,889 | 11 | 7 | 10,086,689 | 4 | 1 | 12,860,097 | 14 | 0 |
| 847,838 | 0 | 0 | 205,347 | 10 | 9 | 119,483 | 15 | 10 | 10,109,406 | 4 | 3 | 12,911,048 | 15 | 9 |
| 672,649 | 17 | 0 | 171,653 | 11 | 5 | 1,124,221 | 16 | 8 | 12,970,119 | 15 | 6 | 16,782,091 | 0 | 5 |
| 795,778 | 0 | 0 | 154,390 | 18 | 2 | 70,618 | 14 | 10 | 10,774,188 | 10 | 10 | 13,322,230 | 12 | 4 |
| 705,042 | 0 | 0 | 151,162 | 10 | 6 | 547,100 | 12 | 0 | 7,971,168 | 3 | 7 | 11,076,253 | 13 | 5 |
| 186,186 | 0 | 0 | ... | | | 148 | 11 | 1 | 1,975,258 | 3 | 11 | 2,557,713 | 12 | 2 |
| 417,554 | 0 | 0 | 51,674 | 6 | 5 | 30,043 | 12 | 5 | 3,024,442 | 1 | 9 | 4,168,964 | 13 | 9 |
| 107,547 | 0 | 0 | 7,862 | 2 | 6 | 2,928 | 0 | 10 | 914,928 | 13 | 3 | 1,245,888 | 7 | 7 |
| 5,954,576 | 17 | 0 | 1,254,361 | 1 | 10 | 3,272,960 | 4 | 7 | 83,242,711 | 11 | 4 | 108,526,008 | 1 | 6 |

## ASSETS.

| Bank Premises and other Property. | | | Bills Discounted and other Advances. | | | TOTAL. | | |
|---|---|---|---|---|---|---|---|---|
| £ | s. | d. | £ | s. | d. | £ | s. | d. |
| 404,829 | 18 | 4 | 10,104,167 | 6 | 2 | 17,315,960 | 10 | 4 |
| 443,672 | 9 | 9 | 9,269,248 | 7 | 9 | 16,285,759 | 1 | 9 |
| 332,262 | 14 | 11 | 8,789,156 | 12 | 3 | 12,860,097 | 14 | 0 |
| 184,199 | 19 | 7 | 7,406,727 | 5 | 0 | 12,911,048 | 15 | 9 |
| 145,500 | 0 | 0 | 9,904,750 | 2 | 1 | 16,782,091 | 0 | 5 |
| 369,021 | 10 | 4 | 7,951,204 | 1 | 9 | 13,322,230 | 12 | 4 |
| 373,377 | 1 | 4 | 6,692,505 | 5 | 6 | 11,076,253 | 13 | 5 |
| 81,212 | 0 | 0 | 1,036,750 | 14 | 5 | 2,557,713 | 12 | 2 |
| 138,212 | 13 | 1 | 3,080,585 | 4 | 4 | 4,168,964 | 13 | 9 |
| 70,187 | 4 | 0 | 892,501 | 10 | 6 | 1,245,888 | 7 | 7 |
| 2,542,475 | 11 | 4 | 65,127,596 | 9 | 9 | 108,526,008 | 1 | 6 |

# TABLE SHOWING THE POSITION OF

## LIABILITIES.

| Banks. | Subscribed Capital. | Paid-up Capital. | Reserve Fund. | Undivided Profits. | | |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | s. | d. |
| ank of Scotland | 1,875,000 | 1,250,000 | 725,000 | 88,695 | 14 | 6 |
| oyal Bank | 2,000,000 | 2,000,000 | 844,078 13/2 | 110,000 | 0 | 0 |
| ritish Linen Co. Bank | 1,250,000 | 1,250,000 | 1,700,000 | 142,723 | 7 | 9 |
| mmercial Bank | 5,000,000 | 1,000,000 | 1,000,000 | 120,420 | 16 | 3 |
| ational Bank | 5,000,000 | 1,000,000 | 1,000,000 | 216,417 | 8 | 9 |
| nion Bank | 5,000,000 | 1,000,000 | 625,000 | 188,620 | 19 | 1 |
| ydesdale Bank | 5,000,000 | 1,000,000 | 580,000 | 187,209 | 16 | 10 |
| own and County Bank | 1,260,000 | 252,000 | 146,000 | 23,954 | 12 | 0 |
| orth of Scotland Bank | 2,000,000 | 400,000 | 135,000 | 31,854 | 7 | 3 |
| ledonian Bank | 750,000 | 150,000 | 68,500 | 10,973 | 3 | 9 |
| | 29,135,000 | 9,302,000 | 6,823,578 13/2 | 1,120,870 | 6 | 2 |

## ASSETS.

| Banks. | Gold and Silver Coin and Notes of other Banks. | | | Government Securities, Short Loans, &c. | | |
|---|---|---|---|---|---|---|
| | £ | s. | d. | £ | s. | d. |
| Bank of Scotland | 1,428,791 | 13 | 1 | 7,231,419 | 18 | 7 |
| Royal Bank | 1,530,848 | 0 | 11 | 5,643,999 | 0 | 10 |
| British Linen Co. Bank | 2,809,668 | 13 | 3 | 3,963,400 | 14 | 5 |
| Commercial Bank | 1,827,067 | 8 | 1 | 8,030,991 | 14 | 9 |
| National Bank | 1,568,583 | 1 | 4 | 5,325,654 | 13 | 5 |
| Union Bank | 1,249,389 | 8 | 5 | 6,165,580 | 15 | 3 |
| Clydesdale Bank | 1,740,976 | 17 | 0 | 6,522,982 | 14 | 7 |
| Town and County Bank | 338,822 | 8 | 8 | 1,232,859 | 16 | 4 |
| North of Scotland Bank | 394,365 | 15 | 4 | 1,573,084 | 14 | 1 |
| Caledonian Bank | 105,104 | 13 | 4 | 488,633 | 6 | 7 |
| | 12,993,617 | 19 | 5 | 46,178,607 | 8 | 10 |

# THE SCOTCH BANKS, AS AT DEC., 1900.

## LIABILITIES.

| Note Circulation. £ | s. | d. | Drafts at Short Dates. £ | s. | d. | Acceptances. £ | s. | d. | Deposits. £ | s. | d. | TOTAL. £ | s. | d. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1,060,181 | 0 | 0 | 203,494 | 15 | 6 | 1,685,140 | 8 | 1 | 15,694,410 | 16 | 9 | 20,706,922 | 14 | [illegible] |
| 1,056,670 | 0 | 0 | 381,626 | 13 | 7 | 550,655 | 11 | 1 | 14,157,122 | 6 | 0 | 19,100,153 | 3 | [illegible] |
| 918,670 | 0 | 0 | 160,565 | 15 | 3 | 598,742 | 8 | 1 | 13,415,884 | 15 | 8 | 18,186,586 | 6 | [illegible] |
| 1,077,959 | 0 | 0 | 220,924 | 10 | 2 | 164,048 | 19 | 5 | 14,418,109 | 4 | 5 | 18,001,462 | 10 | [illegible] |
| 953,467 | 16 | 0 | 124,919 | 9 | 5 | 742,814 | 6 | 9 | 15,738,707 | 7 | 6 | 19,776,326 | 8 | [illegible] |
| 1,062,979 | 0 | 0 | 161,861 | 16 | 1 | 60,842 | 8 | 7 | 12,718,346 | 12 | 6 | 15,817,650 | 16 | [illegible] |
| 989,219 | 0 | 0 | 167,138 | 8 | 0 | 190,262 | 1 | 7 | 12,310,514 | 13 | 2 | 15,424,343 | 19 | [illegible] |
| 304,562 | 0 | 0 | ... | | | 1,279 | 4 | 2 | 2,832,374 | 9 | 1 | 3,560,170 | 5 | [illegible] |
| 496,886 | 0 | 0 | 22,146 | 14 | 3 | 8,158 | 4 | 9 | 3,960,018 | 11 | 6 | 5,054,063 | 17 | [illegible] |
| 137,047 | 0 | 0 | 5,984 | 8 | 2 | ... | | | 1,101,584 | 9 | 4 | 1,474,089 | 1 | [illegible] |
| 8,057,640 | 16 | 0 | 1,448,662 | 10 | 5 | 4,001,943 | 12 | 6 | 106,347,073 | 5 | 11 | 137,101,769 | 4 | [illegible] |

## ASSETS.

| Bank Premises and other Property. £ | s. | d. | Bills Discounted and other Advances. £ | s. | d. | TOTAL £ | s. | d. |
|---|---|---|---|---|---|---|---|---|
| 618,905 | 18 | 10 | 11,427,805 | 4 | 4 | 20,706,922 | 14 | 10 |
| 566,758 | 4 | 10 | 11,358,547 | 17 | 3 | 19,100,153 | 3 | 10 |
| 487,586 | 11 | 10 | 10,925,930 | 7 | 3 | 18,186,586 | 6 | 9 |
| 500,096 | 17 | 4 | 7,643,306 | 10 | 1 | 18,001,462 | 10 | 3 |
| 434,000 | 0 | 0 | 12,448,088 | 13 | 8 | 19,776,326 | 8 | 5 |
| 330,184 | 0 | 10 | 8,072,496 | 11 | 9 | 15,817,650 | 16 | 3 |
| 426,661 | 2 | 3 | 6,733,723 | 5 | 9 | 15,424,343 | 19 | 7 |
| 75,853 | 19 | 1 | 1,912,634 | 1 | 2 | 3,560,170 | 5 | 3 |
| 190,116 | 14 | 5 | 2,896,496 | 13 | 11 | 5,054,063 | 17 | 9 |
| 68,600 | 4 | 11 | 811,750 | 16 | 5 | 1,474,089 | 1 | 3 |
| 3,698,763 | 14 | 4 | 74,230,780 | 1 | 7 | 137,101,769 | 4 | 2 |

# TABLE SHOWING THE POSITION OF

## LIABILITIES.

| BANKS. | Subscribed Capital. | Paid-up Capital. | Reserve Fund. | Undivided Profits. | | |
|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | s. | d. |
| ANK OF SCOTLAND.............. | 1,987,500 | 1,325,000 | 1,250,000 | 132,501 | 5 | 2 |
| OYAL BANK........................ | 2,000,000 | 2,000,000 | 1,013,565 | 113,000 | 1 | 8 |
| RITISH LINEN CO. BANK....... | 1,250,000 | 1,250,000 | 1,800,000 | 157,063 | 5 | 0 |
| OMMERCIAL BANK................ | 5,000,000 | 1,000,000 | 1,010,000 | 118,754 | 15 | 5 |
| ATIONAL BANK..................... | 5,000,000 | 1,000,000 | 950,000 | 228,974 | 16 | 5 |
| NION BANK.......... .......... | 5,000,000 | 1,000,000 | 1,000,000 | 180,606 | 4 | 10 |
| LYDESDALE BANK................ | 5,000,000 | 1,000,000 | 1,000,000 | 159,351 | 8 | 7 |
| ORTH OF SCOTLAND AND TOWN AND COUNTY BANK UNITED IN 1908..... | 3,260,000 | 652,000 | 402,500 | 77,659 | 9 | 2 |
| | 28,497,500 | 9,227,000 | 8,426,065 | 1,167,911 | 6 | 3 |

edonian Bank united with the Bank of Scotland in 1907.

## ASSETS.

| BANKS. | Gold and Silver Coin and Notes of other Banks. | | | Government Securities, Short Loans, &c. | | |
|---|---|---|---|---|---|---|
| | £ | s. | d. | £ | s. | d. |
| BANK OF SCOTLAND......... | 1,773,739 | 15 | 7 | 8,096,915 | 4 | 5 |
| ROYAL BANK.................... | 1,518,129 | 6 | 2 | 7,496,453 | 17 | 9 |
| BRITISH LINEN CO. BANK... | 1,743,055 | 16 | 0 | 3,910,617 | 15 | 1 |
| COMMERCIAL BANK........... | 1,100,589 | 17 | 3 | 10,021,116 | 12 | 2 |
| NATIONAL BANK.............. | 1,510,753 | 11 | 10 | 7,262,651 | 14 | 11 |
| UNION BANK.................. | 895,589 | 0 | 3 | 9,128,667 | 2 | 0 |
| CLYDESDALE BANK........... | 1,880,629 | 5 | 10 | 5,753,602 | 7 | 1 |
| NORTH OF SCOTLAND AND TOWN AND COUNTY BANK........... | 1,083,669 | 0 | 3 | 3,819,850 | 2 | 11 |
| | 11,506,155 | 13 | 2 | 55,489,874 | 16 | 4 |

# THE SCOTCH BANKS, AS AT DEC., 1911.

## LIABILITIES.

| Note Circulation. | Drafts at Short Dates. | | | Acceptances. | | | Deposits. | | | TOTAL. | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| £ | £ | *s.* | *d.* | £ | *s.* | *d.* | £ | *s.* | *d.* | £ | *s.* |
| 1,172,060 | 314,625 | 1 | 5 | 1,676,827 | 15 | 4 | 17,648,362 | 10 | 5 | 23,519,376 | 12 |
| 994,036 | 624,571 | 15 | 0 | 332,966 | 9 | 0 | 14,455,195 | 9 | 1 | 19,533,334 | 14 |
| 737,170 | 221,006 | 17 | 3 | 339,096 | 6 | 4 | 12,118,183 | 12 | 9 | 16,622,520 | 1 |
| 994,620 | 338,121 | 19 | 4 | 352,616 | 7 | 2 | 14,861,355 | 19 | 5 | 18,675,469 | 1 |
| 859,030 | 66,877 | 14 | 5 | 531,059 | 12 | 3 | 16,413,349 | 16 | 10 | 20,049,291 | 19 |
| 883,747 | 67,615 | 19 | 11 | 134,586 | 17 | 0 | 12,586,538 | 4 | 0 | 15,853,094 | 5 |
| 823,963 | 198,917 | 18 | 2 | 222,269 | 3 | 8 | 12,492,327 | 3 | 4 | 15,896,828 | 13 |
| 755,579 | 142,822 | 5 | 3 | ... | | | 7,252,324 | 5 | 1 | 9,282,884 | 19 |
| 7,220,205 | 1,974,559 | 10 | 9 | 3,589,422 | 10 | 9 | 107,827,637 | 0 | 11 | 139,432,800 | 8 |

## ASSETS.

| Bank Premises and other Property. | | | Bills Discounted and other Advances. | | | TOTAL. | | |
|---|---|---|---|---|---|---|---|---|
| £ | *s.* | *d.* | £ | *s.* | *d.* | £ | *s.* | *d.* |
| 687,942 | 8 | 3 | 12,960,779 | 4 | 1 | 23,519,376 | 12 | 4 |
| 626,293 | 1 | 5 | 9,892,458 | 9 | 5 | 19,533,334 | 14 | 9 |
| 1,026,309 | 1 | 6 | 9,942,537 | 8 | 9 | 16,622,520 | 1 | 4 |
| 513,791 | 19 | 5 | 7,039,970 | 12 | 6 | 18,675,469 | 1 | 4 |
| 606,700 | 0 | 0 | 10,669,186 | 13 | 2 | 20,049,291 | 19 | 11 |
| 444,560 | 14 | 10 | 5,384,277 | 8 | 8 | 15,853,094 | 5 | 9 |
| 430,644 | 18 | 2 | 7,831,952 | 2 | 8 | 15,896,828 | 13 | 9 |
| 278,497 | 8 | 4 | 4,100,868 | 8 | 0 | 9,282,884 | 19 | 6 |
| [illegible],614,739 | 11 | 11 | 67,822,030 | 7 | 3 | 139,432,800 | 8 | 8 |

**AN ACCOUNT (pursuant to the Act 8 and 9 Vict. cap. 38) of the amount of Bank Notes authorised by Law to be issued by the several Banks of Issue in Scotland, and the average amount of Bank Notes in circulation, and of Coin held, during the Four Weeks ended Saturday, the 6th day of January 1912.**

| Name and Title as set forth in Licence. | Name of Firm. | Head Office of Principal Place of Issue. | Circulation authorised by Certificate. | Average Circulation during Four Weeks ended as above. | | | Average Amount of Coin held during Four Weeks ended as above. | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | £5 and upwards. | Under £5 | Total. | Gold. | Silver. | Total. |
| | | | £ | | | | £ | £ | £ |
| Bank of Scotland | The Governor and Company of the Bank of Scotland. | Edinburgh | 396,852 | 384,856 | 864,489 | 1,249,345 | 926,468 | 95,618 | 1,022,086 |
| Royal Bank of Scotland | Royal Bank of Scotland | Edinburgh | 216,451 | 295,835 | 731,233 | 1,027,068 | 902,311 | 99,733 | 1,002,044 |
| British Linen Bank | British Linen Bank | Edinburgh | 438,024 | 217,012 | 591,620 | 808,632 | 509,906 | 76,071 | 585,977 |
| Commercial Bank of Scotland, Limited | Commercial Bank of Scotland, Limited | Edinburgh | 374,880 | 267,815 | 702,257 | 970,072 | 687,901 | 106,486 | 794,387 |
| National Bank of Scotland, Limited | National Bank of Scotland, Limited | Edinburgh | 297,024 | 237,520 | 594,641 | 832,161 | 650,384 | 58,395 | 708,779 |
| Union Bank of Scotland, Limited | Union Bank of Scotland, Limited | Edinburgh | 454,346 | 302,797 | 622,604 | 925,401 | 577,391 | 101,473 | 678,864 |
| North of Scotland and Town and County Bank, Limited | North of Scotland and Town and County Bank, Limited | Aberdeen | 224,452 | 369,157 | 427,446 | 796,603 | 620,683 | 48,224 | 668,907 |
| Clydesdale Bank, Ltd. | Clydesdale Bank, Ltd. | Glasgow | 274,321 | 242,530 | 537,574 | 780,104 | 574,834 | 85,018 | 659,852 |
| | | | 2,676,350 | | | 7,389,386 | | | 6,120,896 |

I HEREBY CERTIFY, that each of the Bankers named in the above Return, who have an amount of Notes beyond that authorised in their Certificate, have held an amount in Gold and Silver Coin not less than that which they are required to hold during the period to which this Return relates.

(Signed) F. ATTERBURY,
*Registrar of Bank Returns.*

*Dated* 18*th day of January* 1912.

METH
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MUSH
BAIRD
GRAH
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HUNT